



**This electronic thesis or dissertation has been  
downloaded from Explore Bristol Research,  
<http://research-information.bristol.ac.uk>**

*Author:*

**Abdul-Rahman, Saaidah**

*Title:*

**Poverty and social security in Malaysia : major themes in economic and social development.**

**General rights**

Access to the thesis is subject to the Creative Commons Attribution - NonCommercial-No Derivatives 4.0 International Public License. A copy of this may be found at <https://creativecommons.org/licenses/by-nc-nd/4.0/legalcode>. This license sets out your rights and the restrictions that apply to your access to the thesis so it is important you read this before proceeding.

**Take down policy**

Some pages of this thesis may have been removed for copyright restrictions prior to having it been deposited in Explore Bristol Research. However, if you have discovered material within the thesis that you consider to be unlawful e.g. breaches of copyright (either yours or that of a third party) or any other law, including but not limited to those relating to patent, trademark, confidentiality, data protection, obscenity, defamation, libel, then please contact [collections-metadata@bristol.ac.uk](mailto:collections-metadata@bristol.ac.uk) and include the following information in your message:

- Your contact details
- Bibliographic details for the item, including a URL
- An outline nature of the complaint

Your claim will be investigated and, where appropriate, the item in question will be removed from public view as soon as possible.

**POVERTY AND SOCIAL SECURITY IN MALAYSIA:**  
Major Themes In Economic And Social Development

by

**SAAIDAH ABDUL-RAHMAN**

A Dissertation submitted for  
the degree of Doctor of Philosophy,  
Department of Social Policy and Social Planning,  
Faculty of Social Sciences,  
University of Bristol

August 1991

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ ٥

وَالْأَرْضَ مَدَدْنَاهَا وَاللَّيْلَ نَافِثًا فِيهَا وَإِيسَى رَأَيْنَاهَا  
فِيهَا مِنْ كُلِّ شَيْءٍ مُتَوَازِنٍ ٥  
وَجَعَلْنَا الْكُوفَ فِيهَا مَعَاشٍ وَمَنْ لَسْتُ لَهُ  
يُزِيلُ قَيْنَ ٥

سُورَةُ الْحَجَّزِ

In the name of Allah,  
the Beneficent, the Merciful.

And the earth We have spread out (like a carpet); set thereon mountains firm and immovable; and produced therein all kinds of things in due balance.

And We have provided therein means of subsistence, - for you and for those for whose sustenance you are not responsible.

[Al-Quran; XV, 19-20]

## DECLARATION

The work presented in this thesis is entirely my own except where otherwise specified. This thesis has not been submitted for a degree at this or any other university.

A handwritten signature in black ink, appearing to read "Brandon Delaney", with a long horizontal flourish extending to the right.



## **ABSTRACT**

This study is about poverty and social security in Peninsula Malaysia and explains options for the future. The analysis uses an approach which looks at economic and social development in the context of the historical factors which have influenced the structural formation of the Malaysian society. It seeks to explain poverty as a product of economic underdevelopment and dependency. Most of the poor live in the rural areas, working in the subsistence agriculture sector. Unquestionably development policies implemented since 1971 have been successful in reducing the incidence of absolute poverty, but simultaneously available evidence shows an increase in relative poverty and inequality. Conceivably, in its effort to ameliorate poverty and low income the Malaysian government has not adopted an equitable programme of resource allocation. This study is concerned with the unequal distribution of resources between the economic and social sectors. An analysis of the distribution of government resources in the social sector of welfare, health and education shows a distribution which is biased towards the urban areas and benefit the upper income groups rather than the poorer groups. Moreover, there are no adequate income maintenance and social security provisions for the poor. Hence this study seeks to recommend ways of providing an expanded programme of income maintenance and social security and make provisions for those who have been excluded by institutions responsible for workers' social security and old age income maintenance. Considering that political efforts to alleviate the problem of poverty and income inequalities need to incorporate egalitarian objectives and means, the concluding chapter of this study proposes a non-contributory income maintenance programme especially for those employed in the subsistence agricultural and the urban petty commodity producer sectors. Only then can there be a pronounced trend towards a vertical redistribution of income and resources from the rich to the poor and from the urban to the rural sector.

.

## **ACKNOWLEDGEMENTS**

Many friends and colleagues, too numerous to mention, have contributed invaluable assistance towards the completion of this study by providing support and encouragement, all of whom have my deepest thanks. In particular I am grateful to Universiti Malaya for the generous financial support and leave of absence, without which this study could not have been accomplished.

I am deeply indebted to my supervisor, Professor Peter Townsend, for his guidance and critical evaluations of my ideas and approach. His advice greatly improved the end product of my study.

My thanks to the staff of the Inter-Library Loan section at Bristol University Library for processing my numerous requests for books.

To Helen Rycraft and Jacqui Perry, of the Department of Social Policy and Planning, Bristol University, I convey my special thanks for their cordial and persevering support in both official as well as personal affairs.

On a more personal note, I owe a great debt of gratitude to my family, in particular my children, for enduring long periods of separation while I pursued my academic interests. I extend my profound gratitude specially to the one who devotes consistent care and concern particularly during the strenuous period of my study. On the most personal note, I extend my love and gratitude to my parents for their endless invaluable sacrifices, support and encouragement. It is to them that I dedicate this study.

Needless to say, even after the benefit of all the excellent advice and support all are not responsible for the study's inadequacies and opinions expressed. Errors and omissions are of course solely my responsibility.

## CONTENTS

Abstract		iii
Acknowledgements		iv
Table of Contents		v
Abbreviations		xv
Currency Units		xvi
Figure I	Malaysia	xvii
Figure II	Peninsula Malaysia	xviii
 CHAPTER 1	 INTRODUCTION	 1
	Field of Study	1
	Methodology and Workplan	3
 CHAPTER 2	 DEVELOPMENT PARADIGMS	 7
	Introduction	7
	Modernization Theory	8
	Stages of Economic Growth	10
	Diffusion of Values	12
	Critique of Modernization Theory	13
	Dependency Theory	17
	Critique of Dependency Theory	25
	World System	29
	Global Accumulation of Capital	36
	Food Imperialism	39
	Shifting Economic Trends	48
	Summary and Concluding Remarks	49
 CHAPTER 3	 COLONIAL MALAYA: PATTERNS OF CONTINUITY AND CHANGE	 53
	Introduction	53
	Peninsula Malaysia- a brief introduction	54
	Political Organization	54
	The Malay Peninsula - a brief economic history	56
	European Mercantilism in the Malay Peninsula	59
	British Intervention in the Peninsula	60
	Colonial Administrative Style	62
	Post-war Political Reform	66
	Colonial Economic Scenerio	68
	Tin Mining	69
	Rubber	74
	The Distortion of the Local Economy	81



	Social Stratification and Economic Underdevelopment	86
	Land Policies, Subsistence Agriculture and Poverty	90
	Financial Credit and Poverty	95
	Economic Expansion and the Common Weal	98
	Summary and Concluding Remarks	100
<b>CHAPTER 4</b>	<b>DEVELOPMENT POLICIES, 1957-1970</b>	<b>103</b>
	Introduction	103
	Ethnicity and Communalism	104
	Political Communalism	107
	Colonial Economic Legacy	109
	Economic Development, 1957-70	115
	Growth or Development	122
	Trends in the Size Distribution of Income	122
	Cognisance of Poverty, 1970	129
	Summary and Concluding Remarks	132
<b>CHAPTER 5</b>	<b>DEVELOPMENT POLICIES 1971-1990</b>	<b>135</b>
	Introduction	135
	The New Economic Policy 1971-1990	136
	Economic Development Since 1971	137
	The Emergence of State Capitalism	142
	The Labour Market	145
	Employment Trends	145
	Wages	154
	Ownership and Control of the Corporate sector	159
	Trends in Income Distribution 1970-1987	160
	Cognisance of Poverty, 1971-1987	173
	Summary and Concluding Remarks	175
<b>CHAPTER 6</b>	<b>CONCEPTS OF POVERTY</b>	<b>177</b>
	Introduction	177
	Concepts of Poverty	177
	National Minimum	179
	Poverty Datum Line	180
	Problems of Minimum Subsistence	182
	Subsistence Poverty	184
	Poverty Datum Line: some Third World models	186

	Basic Needs	189
	Basic Needs Approach: some Third World experiences	192
	Relative poverty	195
	Arbitrary Percentages of Population	195
	Relative Deprivation	196
	Summary and Concluding Remarks	200
<b>CHAPTER 7</b>	<b>THEORIES OF POVERTY IN MALAYSIA</b>	<b>203</b>
	Introduction	203
	Conceptions of Poverty in Malaysia	203
	Structural-Institutional Analysis of Poverty	205
	Generic Theory of Poverty	209
	Summary and Concluding Remarks	214
<b>CHAPTER 8</b>	<b>MEASUREMENTS OF POVERTY IN MALAYSIA</b>	<b>215</b>
	Introduction	215
	The Development Plans and Anti- poverty Paradigms	215
	Official Definitions of Poverty	220
	Measurements of Poverty in Malaysia	224
	Relative Approach	224
	Absolute Approach	226
	A Review of Poverty Lines	236
	Incidence of Poverty	238
	Geographical Distribution of Poverty	239
	Population Groups in Poverty	243
	Poverty and Occupational Groups	245
	Poverty and Educational Status	247
	Poverty and the Quality of Life	249
	Summary and Concluding Remarks	249
<b>CHAPTER 9</b>	<b>DEVELOPMENT POLICIES: PROSPECTS FOR EGALITARIAN GROWTH?</b>	<b>251</b>
	Introduction	251
	Rural Development and Income Redistribution	252
	Land Development	253
	Poverty Eradicationa and Agricultural Target Groups	257
	Rubber Smallholders	258
	Padi Farmers	264

	Rural Anti-poverty Programmes - a summary	272
	Poverty Alleviation Programmes in the Urban Sector	274
	Import-Substitution Policies	274
	Export-Oriented Industrialisation Policy	276
	Urban Anti-poverty Programmes - a summary	280
	Public Expenditure and Income Redistribution	282
	Education	286
	Health Service	287
	Public Expenditure and Income Redistribution - some comments	290
	Summary and Concluding Remarks	293
CHAPTER 10	WOMEN AND DEVELOPMENT: SOME IMPLICATIONS FOR SOCIAL SECURITY	297
	Introduction	297
	The Marginalization of Rural Women	297
	Women and the Global Economy	303
	The Role of Women in Industrial Development	305
	Impact of Industrialisation on Women's Labour Power	307
	Migration and Women's Reproduction Responsibility	310
	Exploitation of Female Guest Workers	310
	Petty Commodity Producers	312
	Summary and Concluding Remarks	315
CHAPTER 11	THE SIGNIFICANCE OF SOCIAL SECURITY	319
	Introduction	319
	What is Social Security?	320
	Development of Social Security	325
	The Evolution of Social Security	328
	Social Security in Third World Countries	333
	Social Security and Income Redistribution	336
	Social Security Schemes in Malaysia	340

	Employer's Liability Scheme	341
	Social Insurance	341
	Provident Fund	343
	Civil Service Pension	344
	Auxiliary Schemes	346
	Social Security in Malaysia	
	- A Reappraisal	347
	Summary and Concluding Remarks	349
CHAPTER 12	CONCLUSIONS AND POLICY RECOMMENDATIONS	351
	Theoretical Accounts of Development	351
	History of Economic Development	352
	The Problem of Poverty in Malaysia	354
	Structural Problems and Social Security	355
	Towards an Alternative Strategy	356
	Options for the Future	359
BIBLIOGRAPHY		362



## **LIST OF FIGURES**

5.1	Labour Force Estimates, 1970 and 1985	147
5.2	Peninsula Malaysia: Growth in Employment, 1965-1985	150
5.3	Peninsula Malaysia: Average Annual Employment Growth Rates, 1966-85	150
5.4	Peninsula Malaysia: Unemployment Rates, 1966-1990	153
5.5	Peninsula Malaysia: The Lorenz Curve of the Size Distribution of Household Income, 1970, 1984, 1987	163
5.6	Peninsula Malaysia: Mean Household Income by Rural & Urban Strata, 1970-1984	166
5.7	Mean Household Income by Ethnic Group, 1970-1984	168



## LIST OF TABLES

1.1	Percentage Share of Household Income by Household Groups	2
2.1	Structure of Production - Selected Third World Countries	16
2.2	Comparative Prices of Grains	43
3.1	Production of Tin in Peninsula Malaysia by Mining Methods, 1930-1974	72
3.2	Annual New Plantation of Rubber in Malaya, 1898-1922	77
3.3	Net Export of Federated Malay States Produce, 1929-1933	84
3.4	Sundry Net Imports into the Federated Malay States, 1929-32	85
3.5	Federated Malay States: Changing Racial Composition of Population, 1891-1931	87
4.1	Peninsula Malaysia: Population Estimates by Ethnic Groups	104
4.2	Ethnic Composition of Manufacturing Labour Force, 1972	106
4.3	Rubber Estate Labour Force by Ethnic Group, 1938-72	106
4.4	Export and Production for Domestic Use, 1960	110
4.5	Ownership of Malaysian Rubber Estates, by Nationality, 1960	112
4.6	Tin Production in Malaya by Foreign-controlled and Locally- controlled Mines, 1963	112
4.7	Composition of Senior Federation Bureaucracy, 1955-1962	116
4.8	Malaysia: Gross Domestic Product by Industry of Origin, 1960 & 1970	120

4.9	Size of Income Distribution Estimates, Peninsula Malaysia, 1957/58-1970	124
4.10	Size of Income Distribution Estimates, Rural & Urban Areas, Peninsula Malaysia, 1957/58-1970	126
4.11	Size of Income Distribution Estimates by Major Ethnic Groups, 1957/58-1970	128
4.12	Peninsula Malaysia: Poor Household by Rural & Urban Strata, 1970	130
5.1	Gross Domestic Product by Expenditure Category, 1970-1985	139
5.2	Gross Domestic Product by Sector of Origin	141
5.3	Labour Force Estimates, 1965-1985	146
5.4	Ethnic Composition of Labour Force, 1965-1985	146
5.5	Monthly Income of Industrial Labour Force in Penang and Kuala Lumpur	157
5.6	Ownership of the Corporate Sector, 1971-1980	161
5.7	Size Distribution of Household Income, 1970-1987	163
5.8	Size Distribution of Household Income by Rural and Urban Strata, 1970-1987	165
5.9	Mean and Median Household Income by Ethnic Groups, 1970-1987	167
5.10	Peninsula Malaysia: Mean Monthly Household Income by Ethnic Group, 1984 & 1987	170
5.11	Patterns of Income Distribution in Selected Countries	171
5.12	Incidence of Poverty by Rural-Urban Strata, 1970-1987	174
6.1	South Africa, Levels of Poverty: Definitions	188
8.1	Mean Monthly Household Income of Lowest Four Deciles, 1970-79	221

8.2	Peninsula Malaysia: Monthly Expenditure of All Household and Households with Monthly Incomes of Less than \$200 in 1973	235
8.3	Incidences of Poverty	235
8.4	Peninsula Malaysia: Incidences of Poverty and Number of Poor Households, 1984 & 1987	240
8.5	Peninsula Malaysia: Incidences of Poverty and Number of Poor Households by State, 1984 & 1987	242
8.6	Peninsula Malaysia: Incidences of Poverty and Number of Poor Households by Ethnic Groups, 1984 & 1987	244
8.7	Peninsula Malaysia: Percentage Among Heads of Poor Households by Sector in Employment, 1976	246
8.8	Peninsula Malaysia: Percentage Among Heads of Poor Households by Employment Status, 1976	248
8.9	Peninsula Malaysia: Education Level of Heads of Poor Households, 1976	248
9.1	Peninsula Malaysia: Incidence of Rural Poverty by Target Group, 1984 & 1987	259
9.2	Incidence of Poverty and Mean Monthly Household Income of Rubber Smallholders, 1984 & 1987	261
9.3	Incidence of Poverty and Mean Monthly Household Income of Padi Farmers, 1970-1987	264
9.4	Peninsula Malaysia: Padi Areas and Production, 1986 & 1987	265
9.5	Public Development Expenditure for Drainage and Irrigation, 1966-1990	266
9.6	Malaysia: Employment Estimates by Sector, 1970-1988	278
9.7	Proportion of Malays and Chinese in the Manufacturing Labour Force	280

9.8	Peninsula Malaysia: The Distribution of Basic Public Services by Basic Partition, 1974	284
9.9	Public Development Expenditure for Education and Health Services, 1971-90	285
9.10	Peninsula Malaysia: Selected Health Indicators, 1980 and 1985	289
9.11	Public Development Expenditure for Social Welfare Services, 1971-90	291
11.1	Malaysia: Distribution of Social Security Benefits Expenditure	335
11.2	Malaysia and Singapore: Receipts and Expenditure by Social Security Schemes	339
11.3	Expenditure on Public Pensions and Gratuities	345



## **ABBREVIATIONS**

<b>1MP</b>	<b>First Malaysia Plan</b>
<b>2MP</b>	<b>Second Malaysia Plan</b>
<b>3MP</b>	<b>Third Malaysia Plan</b>
<b>4MP</b>	<b>Fourth Malaysia Plan</b>
<b>5MP</b>	<b>Fifth Malaysia Plan</b>
<b>R5MP</b>	<b>Mid-Term Review of the Fifth Malaysia Plan</b>
<b>FELDA</b>	<b>Federal Land Development Authority</b>
<b>EPF</b>	<b>Employees Provident Fund</b>
<b>FEER</b>	<b>Far Eastern Economic Review</b>
<b>FMS</b>	<b>Federated Malay States</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>GNP</b>	<b>Gross National Product</b>
<b>ILO</b>	<b>International Labour Organization</b>
<b>ISSA</b>	<b>International Social Security Association</b>
<b>MSW</b>	<b>Ministry of Social Welfare</b>
<b>NEP</b>	<b>New Economic Policy</b>
<b>SOCISO</b>	<b>Social Security Organization</b>
<b>TER</b>	<b>Treasury Economic Report</b>
<b>n.a.</b>	<b>not available</b>

**CURRENCY UNITS**

Unless otherwise stated all currency referred to in this study is in Malaysian (formerly Malayan) *Ringgit* (\$) (100 sen). The exchange rates per US dollar are:

1950:	\$3.06	1975	\$3.03
1955:	\$3.06	1980	\$2.83
1960:	\$3.06	1985	\$2.66
1970:	\$3.08	1989	\$3.55

(Sources: International Monetary Fund (1987) *International Financial Statistics Yearbook*, Washington, D.C.; IMF, p. 468; International Monetary Fund (1990) *International Financial Statistics Yearbook*, Washington, D.C.; IMF, pp. 488-89)

Figure I,

MALAYSIA

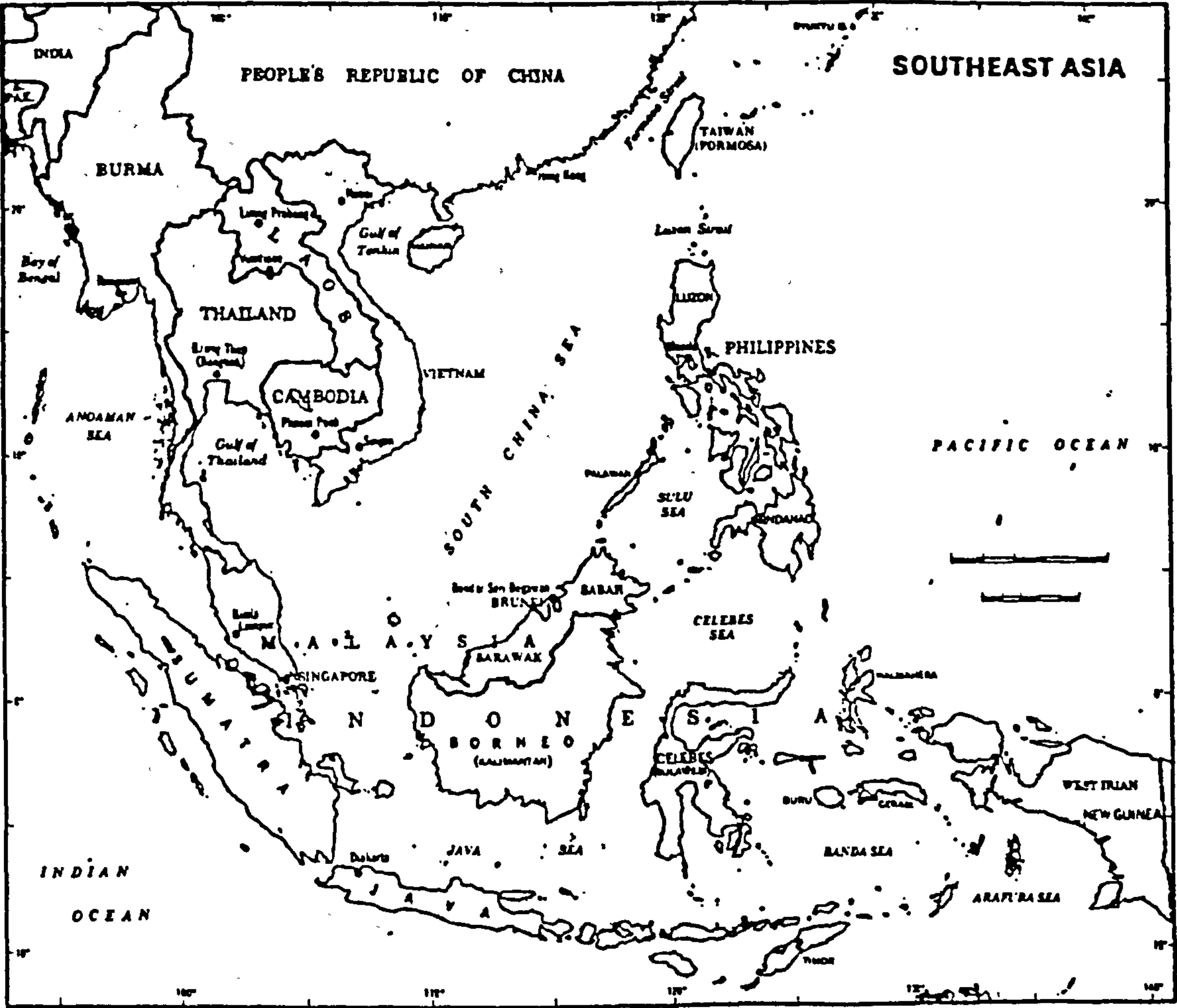


Figure II

PENINSULA MALAYSIA





## **Chapter One**

### **INTRODUCTION**

#### **FIELD OF STUDY**

This thesis examines the state of economic and social development, poverty and social security in Peninsula Malaysia, and recommends the reformulation of income maintenance policies with the aim of providing a wider coverage of social protection for the country's population. This study focuses on Peninsula Malaysia only and excludes the states of Sabah, Sarawak and the Federal Territory of Labuan. Peninsula Malaysia is chosen as the area of study in preference to all of Malaysia because most data are available for Peninsula Malaysia only. Occasionally, unless otherwise specified, the terms Malay Peninsula, Malaya (especially for accounts before the country's independence in 1957), and Malaysia are used synonymously with the term Peninsula Malaysia.

The study uses an analysis which emphasises the need to understand poverty and inequality in the context of development and underdevelopment, both at the country and global levels. Accordingly it is necessary to trace the historical factors which have shaped the country's economic and social structure, particularly economic policies which were introduced by the colonial government.

Despite rapid economic growth in independent Malaysia, evidence suggests the persistence of severe income disparities. Malaysia could not be considered to be among the more egalitarian countries. Malaysian development policies have failed to effect a distribution of income and resources as equitable as some other middle-income Asian countries, for example, as shown in Table 1.1, South Korea and Thailand.

**Table 1.1**

Percentage Share of Household Income  
by Household Groups

	Year	Household Groups		
		Lowest 40%	Middle 40%	Highest 20%
South Korea	1976	16.9	37.8	45.3
Thailand	1975/76	15.2	35.0	49.8
Malaysia	1973	11.2	32.7	56.1

Source: World Bank (1988), Table 26, pp. 272-73  
(adapted).

Due to its varied labour market, Malaysia does not have a coherent social security and income maintenance scheme. Programmes which provide benefits for employment injury, disability and old age income security are meant for those in the regular waged or salaried employment only. What is distressing is the fact that workers in the subsistence agricultural or rural sector, especially the self-employed smallholders, tenant farmers and labourers who are more often adversely affected by fluctuations in world commodity prices, are the ones who lose out for the lack of an indiscriminate social security and income

maintenance programme. Additionally those employed in the urban petty commodity producer sector, like the market stallholders and pedlars, do not have adequate income maintenance provisions.

This study was generated out of an interest with questions pertaining to equitable redistribution of resources and income. This study contends that the function of the state<sup>1</sup> should be to mitigate the structure of inequality and contribute towards a more egalitarian social policy - on grounds which include long-term economic prosperity. Therefore, while dealing with Malaysia as one country, the analysis has implications for, development generally, and for middle-income states such as Malaysia in particular.

## METHODOLOGY AND WORKPLAN

This study draws heavily on published and unpublished materials, including official reports, books, articles in journals and newspapers.

Altogether twelve chapters are included in the study. Chapter One introduces the subject of study and the layout of the subsequent chapters. Chapter Two is a review of theories of development and underdevelopment, and this forms the basis of the study's perception on the problems of poverty and inequality, especially with reference to the Third World.

---

1. The "state" is defined as "a set of agencies claiming supreme authority for the coordination and continuity of a population within a particular territory, backed by a virtual monopoly of force" (McLennan, et.al., 1984, p 3). Sociologists and political scientists have debated in recent years the extent to which the "state" has fulfilled Liberal-Pluralist or Marxist prescriptions. On all sides it has been agreed that coercion or control are more important than formerly believed.



Chapter Three examines the foundation of Malaysia's political economy. This chapter traces the historical background of economic development and the penetration of the capitalist mode of production in Peninsula Malaysia. Colonial economic policies determined Malaysia's position as a producer of primary commodities of tin and rubber, and were also responsible for the country's dependency on foreign capital and immigrant labour, and the underdevelopment of the Malay peasantry.

Chapters Four and Five are concerned with economic and social development policies in independent Malaysia. The first of these chapters analyses the development policies of the independent government up to the year 1970, when the emphasis was on the development of physical infrastructure especially in the rural areas. Chapter Five analyses the economic and social development policies from 1971 to 1990, in particular policies that were implemented under the New Economic Policy with the declared objectives of ameliorating poverty and restructuring society. The chapter concludes that while it is true the state has successfully reduced the incidence of poverty from 49.3 percent in 1970 to 17.3 percent in 1987 (R5MP, P 47) evidence shows first that relative inequalities persist in the society, and second that the improvement is based on static assumptions and does not really represent a sufficiently reasoned or scientific indicator of development.

Chapters Six, Seven and Eight are concerned with poverty. Chapter Six examines the theories of poverty and inequality, in particular the concepts of subsistence poverty, basic needs and relative poverty. Chapter Seven concentrates on theories of poverty in Malaysia. Structuralist explanations of poverty together with underdevelopment and dependency provide us with a better understanding of the problem of poverty, particularly in the rural areas. Chapter Eight presents the official perception of poverty, based on statements

in the various Five Year Development Plan documents, and then critically reviews the different methods of estimating the poverty line in Peninsula Malaysia.

Chapter Nine critically analyses development trends since 1971. Under the New Economic Policy the poverty eradication programme is given top priority in the development strategy. Nevertheless, precisely because economic development policies emphasise the promotion of the industrial sector and the cultivation of cash crops like oil palm, rubber and cocoa, Malaysia is not self-sufficient in food production. If present trends persist, self-reliance, particularly in food production, and the substantial impact it can have on reducing poverty, has a long way to go.

It had already become widely recognised at the beginning of the 1970s that Malaysia has been more closely involved with the process of global production organised by the multinational companies. While this process has increased employment in the country and increased too the proportion of women in the labour force, it also permits a degree of exploitation of female labour. The suppression of wages and lack of job security in multinational companies have serious implications for female poverty and social security. These are the central themes which will be discussed in Chapter Ten.

Chapter Eleven reviews the concept of income maintenance and social security. In general industrialisation has been accepted as the main instigator of modern social security, particularly in the West. Definitions of social security put forward by international agencies like the International Labour Organisation and the International Social Security Association appear to stress social insurance and provident funds. However such schemes tend to cover workers in the waged or salaried sectors only. Hence it is argued that the



concept of social security presently understood in Malaysia is a narrow one because social security schemes and provident funds specifically exclude those who are employed in the traditional agricultural and urban petty commodity producer sectors. Therefore this study advocates the inclusion of those who are employed in the traditional and smallholding agricultural sector, and those in the urban petty commodity producer sector, into a wider social security and income maintenance programme which will be termed in this study as a social protection programme.

The concluding chapter explores the possibility of securing a fundamental shift in the structure of inequality in favour of the rural subsistence and urban petty commodity producer sectors through a transformation of the functions of social security and income maintenance. It suggests ways of increasing the real income of the poorer groups. The central recommendation of this study, however, is an alternative option of extending social security and income maintenance into a wider social protection programme for those in the rural and urban petty commodity producer sectors, especially rice farmers, agricultural smallholders, fishermen, petty traders and pedlars. Only then will market related economic processes generate a more egalitarian role for social security. And this too includes the role of the state and of international organisations, who both will need to play a more prominent role in the future development of the international economy and global relations. The implications for forms of international regulations and creative international planning of a social kind are considerable.

## Chapter Two

### DEVELOPMENT PARADIGMS

#### INTRODUCTION

The aim of this chapter is to present a theoretical framework by which economic systems - specifically the Malaysian economic system - could be understood. Considering that the objective of this thesis is an enquiry into the state of social security in Malaysia, this thesis is written within the social policy perspective. On this account, in this chapter focuses on theories of development rather than merely theories of economic growth.

Economic growth is a necessary but an insufficient condition for development. Seers (1979, p 12) advances three central problems crucial to a country's development, namely the state of poverty, the level of unemployment and the extent of inequality. Adequate educational levels and political and economic independence of the nation are additional essential conditions for development. These all relate to "structure" or the overall cohesion and interrelationship of a society. Thus questions pertaining to a country's development are questions which are central to the study of social policy. Accordingly there has been a significant shift from the conception of social policy "as peripheral, residual and primarily concerned with reacting to the imperatives of externally-determined economic and social change, to one which virtually equates social policy with social development" (MacPherson, 1982, p 184). Alternatively the shift can be expressed as one that has taken place "internationally", from the preoccupation with social policy as affecting institutional development in the



industrialised West or North to a conception which includes many of the principal interests of middle-income and poor countries. An attempt to comprehend how development comes about is therefore fundamental to any discussion of social policies.

In the following sections of this chapter we shall critically discuss the major approaches to the study of development. Two main paradigms dominate the literature on development and change. In the 1950s and early 1960s modernization theory played the leading role. This accounts for the process of development using ideas originally found in the works of Durkheim and Weber. The late 1960s saw the emergence of dependency or underdevelopment theory, which are based on Marxist theories of imperialism and capitalism. From the mid-1970s, however, the development debate became more complex, resulting in the proliferation of critical evaluations of modernization and dependency theories, and the emergence of alternative forms of the dependency analysis based on a world-system and unequal exchange perspective.

## MODERNIZATION THEORY

Modernization theory was largely inspired by structural functionalism, with its underlying idea that societies have to fulfil certain functions in order to exist and these functions can be carried out in different ways through different structures and institutions. Functionalism, with its traditional-modern dichotomy, is usually associated with the works of Durkheim, Weber and later Parsons. The argument central to modernization theorists was the notion of a distinction between traditional and modern societies, conceptualised in essentially Weberian terms. Most modernization theorists (for example,



Parsons, 1951; Lerner, 1958; McClelland, 1961) argued that the transition from a traditional society depended on a prior change in the values, attitudes and norms of the people.

Smelser (1969) considers modernization as a process of structural differentiation, whereby several interrelated technical, economic and ecological processes occur. He outlined four processes that give rise to modernization.

"(1) in the realm of technology, the change from simple and traditionalized techniques towards the application of scientific knowledge;

(2) in agriculture, the evolution from subsistence farming towards commercial production of agricultural goods. This means specialization in cash crops, purchase of non-agricultural products in the market, and often agricultural wage labour;

(3) in industry, the transition from the use of animal and human power towards industrialisation proper, or 'men aggregated at power driven machines, working for monetary return with the products of the manufacturing process entering into a market based on a network of exchange relations';

(4) in ecological arrangements, the movement from farm and village towards urban centres.

[Smelser, 1969, pp 126-7]

Based on the above explanation, thus in a traditional society the mode of production is non-traditional or small-scale subsistence production, using family labour in a rural environment. On the contrary, in a modern society industrialization and scientific technology occurs, with high-scale production geared for exchange and the existence of a wage labour in an urban environment. Furthermore, modernization means development, and could be understood as an increase in the complexity of societies; new kinds of roles, such as wage labour, and institutions, such as the financial market, emerge with specialized activities and functions. This conception became the conventional conception in many powerful countries in the 1950s and 1960s.

## STAGES OF ECONOMIC GROWTH

In the 1950s and early 1960s the concept of "economic growth" played a leading role in the literature on development and change. This was primarily an economic growth theory of development which stressed that savings, investment and foreign aid were the essential components that would enable Third World countries to transform their economies from poor agricultural subsistence type of production to the modern industrial economy. In the light of this theory Third World countries could initiate their development by proceeding along an economic growth path which is historically similar to the one experienced by more developed countries.

The stages of economic growth theory argues that the typical less-developed economy is characterised by an extremely low ratio of material to human resources and a backward technology, which yields low levels of per capita income. Due to mass unemployment, either openly or in disguise, substantial growth is likely to be precluded by the low levels of savings possible at low levels of per capita income, plus the fact that domestic entrepreneurship and technology lie at stagnant levels. Thus in simple terms, the problem of development was identified as raising resources on a scale to achieve a level of investment that would change the structure of the economy. Todaro (1989, p 64) maintains that the stages of economic growth doctrine came about partly due to the "Cold War" politics of the 1950s and early 1960s and the resulting competition for the allegiance of newly independent nations of the Third World.

The most influential advocate of the stages of economic growth theory was the American economic historian, W.W. Rostow, whose book "The Stages of



Economic Growth: a Non-Communist Manifesto (1960)" describes the transition from underdevelopment to development by an interpretation of the history of the now advanced countries to a general theory of growth. Advanced countries ~~become~~ achieved economic development through several sequential stages of a single continuum of self-sustaining growth, and all countries must proceed in a similar way. Rostow (1960) postulates that: "It is possible to identify all societies, in their economic dimensions, as lying within one of the five categories; the traditional society, the preconditions for take-off, take-off, the drive to maturity, and the age of high mass-consumption" (Rostow, 1960, p 4). From the beginning this was an extraordinarily simple - if not bold - classification of the world's societies.

The advanced countries of the West had at various times passed the stage of economic take-off for substantial growth while the underdeveloped countries of the Third World were either still in the traditional stage or the pre-conditions stage. The central problem for development was the mobilization of resources from the domestic economy and foreign savings in order to generate sufficient investment to accelerate economic growth. In macro-economic terms the formulation between investment and growth was expressed in what is known as the Harrod-Domar model, which simply means that the rate of growth of the GNP is determined jointly by the national saving ratio and the national capital or output ratio. More specifically, the growth rate of the national income will be directly or positively related to the saving ratio, and inversely or negatively related to the economy's capital or output ratio. Thus the more an economy is able to save and invest out of a given GNP, the greater will be the growth of the GNP.

Following the principle of the Harrod-Domar model, therefore one of the fundamental requirements for economic growth is simply to increase the

proportion of national income which is saved. Increased savings, directed by the state to industry, with protection against industrial imports, was the formula for development. Nevertheless, there is one constraint on development, that is, if a country could not generate savings and investment at its intended level it could seek to overcome this capital constraint to growth either through foreign aid or private foreign investment. Indirectly this form of international economic relations justifies the transfer of capital and technical assistance from developed countries to the Third World.

### DIFFUSION OF VALUES

While economists like Rostow (1960) advocated the diffusion of capital and technology from the West to Third World nations, others like Lerner (1958) advocated the diffusion of Western cultural and attitudinal values, such as the motivation to succeed. Lerner's (1958) conception of a traditional society is one which is agrarian, rural, pre-literate and authoritarian, whereas modern society is industrial, urban, literate and democratic. Based on his observations of Middle Eastern societies, Lerner (1958) called for an intellectual effort to "reformulate Islam in a modernizing society. What is required..... to "motivate" the isolated and illiterate peasants and tribesmen who compose the bulk of the area's population is to provide them with clues as to what better things of life might be" (Lerner, 1958, p 409). Presumably what Lerner had in mind were values such as the consumption of mass-produced non-durable goods from the United States and other Western countries.

In a later work Lerner (1967) commented on the phenomenon of rapid urbanization combined with the extensive unemployment and poverty of shanty town life in the Third World, and asserted that this reflects a breakdown in the



X

"transition" towards modernization, and accused the developing societies as "societies in-a-hurry" (Lerner, 1967, p 24). He was in the opinion that people in the Third World were impatient, and that if they want to get more of the goods that development delivers they ought to work harder in order to achieve the level of success experienced by the West. 8

### CRITIQUE OF MODERNISATION THEORY

By the middle of the 1960s there emerged a number of criticisms of modernization theory. Rostow (1960) derived his five stages of growth from an analysis of the British industrial revolution. The take-off period is crucial, whereby obstacles to economic growth are removed, and adequate capital investment initiates growth. In view of this, Roxborough (1979) claims that "this model of development emphasises on entrepreneurship and capital accumulation as a pre-requisite for economic growth" (Roxborough, 1979, p 16); and is therefore disposed to favour capitalism.

Webster (1984) asserts that modernization theory is "an over simplified model of development that lacks two essential ingredients: an inadequate historical input and a structural perspective" (Webster, 1984, p 62). Although the theory incorporates functionalist dualism which describes the co-existence of two types of societies, the "traditional" and the "modern", there is no historical analysis of the different types of traditional societies which are diverse in terms of their social, economic and political structures, and in particular why societies had become poorer, or had been denuded of wealth and high cultural artefacts.

Furthermore, Third World countries differ in terms of their social and political structures. Most Third World countries in Africa and Asia were at one time or

another colonies of West European countries. As a consequent, not only were they in many instances exploited economically and ruled autocratically, their economic structures and social institutions have been modelled upon their former rulers and we find diverse institutional and social patterns in these countries.

Colonial powers such as the British in Malaya and India exercised the system of "indirect rule", which meant they used pre-existing structures of political authority by incorporating them into the framework of the colonial state. As it were, they exploited the existence of the indigenous society by preserving the structure of authority but subjugating them to new ends. For instance, in Malaya the Malay Sultans were legally recognised as the head of Islamic religion and Malay customs, the aristocrat class were integrated into the colonial administration and absorbed into the civil service, but governmental decision-making was in the hands of the colonial rulers, leaving the Malay Sultans and chiefs as rulers in name only. At the same time the Malay peasants were left to be subsistence producers (Means, 1976,).

Likewise in India, the Indian princes were integrated into the colonial administration, some of them receiving material rewards for their loyalty. The landed class were conciliated, their estates safeguarded and their status enhanced - they became important props of the administration (Low, 1973).

In West Africa the French practised a philosophy of assimilation, which meant that the colonial territories were integrated politically and economically as overseas departments of France, with the centralisation of power in Paris. Also, the French resorted to a form of paternalism, using appointed "chiefs" as government agents. Meanwhile in Indochina



(Vietnam, Cambodia and Laos), and in North Africa (Morocco and Tunisia) French control was exercised more through indigenous ruling groups (Mair, 1962; Crowder, 1968).

In contrast, institutional diversity is less prominent in Latin America, where the Spanish and Portuguese had established colonies as early as the sixteenth century. At the time of arrival of the Spanish conquistadores in the early sixteenth century, the Incas of Peru and the Aztecs of Mexico, for example, lived in organized social and political systems. These societies could produce intricate works of gold, silver and other precious metals. Their agriculture technology, however, was extremely simple and cultivation was carried out by use of hand-plough. The Spanish destroyed these ancient kingdoms, plundered their treasures, melted down their gold and silver works, and subsequently, these highly organised civilizations were annihilated almost without trace under Spanish rule (de la Vega, 1961).

Latin American colonies were basically run as overseas feudal estates for Spanish settlers, and most of them were granted independence by the mid-nineteenth century (Gibson, 1966; Stein and Stein, 1970). With a common colonial heritage Latin American countries tend to possess similar economic, social and cultural institutions. For example, with reference to Table 2.1, compared to other Third World countries (with the exception of newly-industrialised Asian states of South Korea and Singapore which greatly accelerated the growth of their manufacturing outputs) in general, due to their longer history of independence, Latin American countries possess more advanced industrial sectors.

**Table 2.1**

Structure of Production  
Selected Third World Countries, 1986

	GNP per capita US \$	Distribution of GDP (percent)	
		Manufacturing	Agriculture
<b>Latin America</b>			
Peru	1090	20	11
Brazil	1810	28	11
Mexico	1860	21	9
<b>Africa</b>			
Tanzania	250	6	59
Kenya	300	12	30
Morocco	590	17	21
<b>Asia</b>			
India	290	19	32
Malaysia	1830	n/a	n/a
South Korea	2370	30	12
Singapore	7410	27	1

Notes: n/a - not available

Source: World Bank (1988), Tables 1 & 3, pp 222-223  
& pp 226-227 (adapted).

The basic assumptions of modernisation scholars were that the process of economic and political modernization in the Third World would necessarily and specifically reproduce the industrial capitalism or the liberal democracies of the West. For instance, Einstedt (1966) projected a model of modernization based on the experience of Western Europe and North America and projecting that model onto countries of the developing world of South America, Asia and Africa. According to Einstedt (1966, p 1) "modernisation is the process of change toward those types of social, economic and political systems that have developed in Western Europe and North America from the seventeenth century to the nineteenth [century]". To Einstedt therefore modernization and development meant replicating the experiences of the West.



In reality the path or stages or speed of development varied greatly between different countries. In previous as well as present times some countries grew or changed rapidly while others stagnated. It is sometimes difficult to identify the reasons for these variations. In theory what modernization theorists did not realize was that development was not simply a matter of removing obstacles; or injecting various components such as capital, technology; and the transfer of structural and attitudinal conditions, for example well-integrated money markets, highly developed transportation facilities and the motivation to succeed that are prevalent in the West. The diverse economic and institutional factors prevalent in the Third World countries must be understood before we attempt an effective analysis of development in the Third World.

By the middle of the 1960s it was apparent that the economic, social and political conditions of the Third World were short of the expectations generated by development models created in the West. While there has been sustained foreign investment in Third World countries, the societies have not been transformed and the structure of the economy have scarcely changed. Third World countries remain as low-income and middle-income economies, and highly vulnerable to changes in the global economic system.

### DEPENDENCY THEORY

One forceful criticism of the economic take-off model of development is that it entirely ignored the impact of colonialism and imperialism in the Third World. The writing of Andre Gunder Frank (1969) [1967] initiated one of the most important lines of analysis of the processes and problems of Third World development within the political economy and economic history perspective,

centred on the themes of monopoly capitalism or exploitation and imperialism or oppression.

Dissatisfaction with the role of the Economic Commission for Latin America and its failure to comprehend the growing problems of Latin America in the 1960s led Frank to adopt a structural perspective and expanded the "development of underdevelopment" hypothesis<sup>1</sup>. Frank (1967) argues that underdevelopment began with the penetration of capitalism in the Third World and it persists as a function of continuing capitalist relations. His general thesis is that: "Development and underdevelopment each cause and are caused by the other in total development of capitalism" (Frank, 1967, p 240). Frank confirms his thesis by citing his case studies on Chile and Brazil. The conquest of these countries by Spain and Portugal in the early sixteenth century succeeded in incorporating the countries fully into the world mercantile and later industrial capitalist system. The colonialists also introduced the monopolistic metropolis-satellite economic structure. The dominant economy of the West, which Frank terms as "metropolises", were at the centre, while the colonies or "satellites" were subordinate, weaker and dependent of the centre.

Furthermore, once a country is converted into a satellite, the metropolis not only exploits the satellite's domestic economy but also dominates its political

---

1. The dependency and underdevelopment theory was first outlined by Paul Baran (1957). He postulated that the advanced capitalist countries had become developed by expropriating economic surplus from overseas countries which they first traded and later colonised. The overseas countries, meanwhile, became underdeveloped by aiding the domination of the West, and because of their economic interaction with the advanced industrialised countries are left with a narrow specialised, export-oriented primary production structure. The national economy is dominated by a small landed and merchant elite whom Baran termed as "compradors", who serve as a vital link between the domestic economy and the advanced industrial states. An outcome of this active interaction between the compradors and the advanced industrial state is the tendency of the former in adopting the cultural life-styles of the latter.



and social life. The West was able to advance industrially because it was under-developing the Third World countries to specialize in export-oriented production and supply the raw material needs of the industrialized West. In this metropolis-satellite dichotomy the satellite was kept dependent upon the metropole by a sucking out of economic surplus to the metropole; thus dependent development was created. Third World elites, whom Frank refers to as "comprador elites", were incorporated into the system by becoming intermediaries in the transfer of surplus production between the peasant producers and the rich merchants and then to the international market.

With the depletion of raw materials in the colonies the metropolis power would transfer their interests elsewhere. Thus the ex-mining districts in Brazil, Peru and Bolivia, which once were vital to the development of the metropolis were abandoned by the metropolis when the mines depleted, and these areas degenerated into a state of underdevelopment. Hence we see the coexistence of rich and poor nations in an international system, dominated by unequal power relationships between the metropolis or developed countries and satellites or underdeveloped countries.

Frank (1967) postulates that the exploitation by the metropole on the satellite can be stopped only by breaking the chain of dependency, in particular that of the weak comprador elite class, through a socialist revolution of the working class. The development of the satellites could occur only through a qualitative transformation of socio-economic relations brought about by proletariat revolution on a world-wide scale.

Arguing along Frank's (1967) analysis of "development of underdevelopment", Dos Santos (1973) presents a cogent definition of dependency and underdevelopment. According to Dos Santos:



"underdevelopment, far from constituting a state of backwardness prior to capitalism, is rather a consequence and a particular form of capitalist development known as dependent capitalism.....dependence is a conditioning situation in which the economies of one group of the countries are conditioned by the development and expansion of others.....Dependence [then] is based upon an international division of labour which allows industrial development to take place in some countries while restricting it in others, whose growth is conditioned by and subjected to the power centres of the world"

[Dos Santos, 1973, pp 76-77]

Dos Santos (ibid.) argues that dependency is a "conditioning situation" because the possibilities of action and behaviour of men are determined by various alternatives internal to dependency itself, and establishes the possible limits of development and its forms in dependent countries. Alternatively dependent countries may seek to change the "conditioning situation" by breaking off the relationship and seek to consolidate an independent economy, examples of which can be seen in Third World countries like China, North Korea, Vietnam and Cuba (although Cuba relies on sugar exports for a large part of its income). Unlike capitalism, socialist countries do not base their society and their power on the expansion of consumption; hence they are able to face external economic pressures more easily and thus maintain their political independence.

While Frank (1967) was more concerned with similarities between the economic structures of dependent economies, Dos Santos (1973, pp 67-71) distinguishes the different types of relations of dependency that exist in the satellite economies. Firstly, there is colonial dependency, with the export of raw materials to the centre and the import of luxury goods for the consumption of the ruling class. Secondly, there is industrial-financial dependency which occurs during the import-substitution phase and hence a greater dependency on foreign trade because foreign currency is used to purchase inputs which are vital to national industries. The decision whether to import products such as

petrol, chemicals and machines depends on balance-of-payments deficits which are caused by declining prices of primary products; thus subjecting the economy to the control of foreign capital. Thirdly, there is industrial-technological dependency when international capital in alliance with state bureaucracy establish transnational corporations in the dependent country, and the mass consumption sector becomes increasingly important. As a result of rural-urban migration, there is a growth of marginal population living in shanty towns, creating social and economic marginality.

The debate on forms of dependency was extended further by Szentes (1971). In his comprehensive attempt to develop a political economy of underdevelopment, Szentes (1971, pp 168-189) distinguishes four forms of dependence: direct economic dependence, trade dependence, financial dependence, and technical dependence. (The discussion in the following paragraphs are based on Szentes' analysis.)

Under direct economic dependence the key positions in the economy are controlled by foreign monopoly capital. For example, North American capital is in control of between 80 percent to 100 percent of mining concerns in Latin America; and the American United Fruit Company controls the largest banana, sugar, coffee and cocoa plantations in Colombia and Ecuador. In the Middle East foreign capital has a total impact on the entire economy of countries in this region. The American monopolies have an unchallenged control over the oil of Saudi Arabia, Bahrein and Kuwait, and further controls 80 percent of the proven oil reserves of the region, 60 percent of its output and 90 percent of the total oil tanker fleet. It is in this context that we must understand the United States' foreign policy in the Gulf region, which could be interpreted as America's effort in ensuring an interrupted supply of relatively petrol to consumers in its domestic market.



Direct economic dependence usually reduces a country's ability for long-term planning and autonomous growth, because it becomes reliant on foreign investors for the mobilization of capital and technology in the production and marketing of its primary resources. Apart from the repatriation of profits and dividends, there is always the possibility of a sudden pull-out of foreign capital as a possible means of economic and political blackmail.

Trade dependence takes two forms. Firstly, there is relational dependence in the case of dependence in trade relations on a few advanced capitalist countries, resulting from the direct economic dependence and colonialism. The satellites' dependence on foreign trade could also be the result of credit-financing of exports and the extension of loans and aids by metropolitan countries; as is the case between United States and the Latin American countries.

The second form of trade dependence is the overall dependence of the entire economy on cyclical changes in the capitalist world market. This is a form of dependence that has its own roots deep in the structure of the economy and is more difficult to abolish than relational dependence. For example, exports make up about 70 percent of Saudi Arabia's national income. The severity of Africa's structural economic imbalances and the vulnerability of African economies to the external environment can be observed by the fact that exports form between 20 percent (in Uganda and Kenya) to 50 percent (in Mauritius and Zambia) of the output in the monetary sector of the respective countries.

In the Third World, financial dependence occurs when foreign banks control a substantial share of the money market and credit system of the country. The banking operations in former British colonies in Africa, for example, are



usually handled by subsidiaries of major British banks such as Barclays Bank and the Standard Bank of South Africa. These banks could influence the development of the whole economy of the country in question, through the credit finance of trade and by imposing credit restrictions; and thus restrict the growth of the economy by transferring a considerable part of around 30 to 40 percent of their assets to the metropolitan banks.

Furthermore, less developed countries depend on advanced capitalist countries on foreign matters. The Third World is increasingly dependent on loans and grants from leading capitalist countries and international organizations such as the World Bank and the International Monetary Fund, leading to increasing indebtedness of the developing countries, such as the Mexican debt crisis of 1982. In September 1982 Mexico triggered a near-panic situation when it almost defaulted its loans, causing a major re-scheduling exercise by several banks and governments of its US\$80 billion external debt - a total of US\$10 billion had to be re-scheduled. The World Bank (1988, p 30) states that the outstanding long-term debt of developing countries has continued to increase since 1982; the total external debt of highly indebted countries (like Mexico, Brazil and Argentina) rose from US\$390 billion in 1982 to an estimated US\$485 billion at the end of 1987; and that valuation effect caused by the decline of the US dollar accounted for most of the increase since 1985. At the end of 1986 Brazil had an outstanding external debt of US\$97.2 billion, Mexico US\$91 billion and Argentina US\$43 billion (World Bank, 1988, Table 18, p 257).

Technical dependence is the most recent yet increasingly important form of dependence which grew out of the industrialization programmes in many developing countries. These countries are dependent on physical technology such as capital goods, patents and licenses and scientific equipment; as well as intellectual technology such as the import of experts, advisers, technicians and teachers or the sending abroad of students on foreign scholarships.

When advanced countries extend "technical" assistance to developing countries, they do it in such a way that the realization of the licenses, blueprints, standards and technological specifications as well as the smooth operation of the plant installed by them, the working and repair of the machinery and equipment should be dependent on the deliveries of metropolitan firms. More often, plants which are established by transnational corporations are built for the purpose of the manufacture of component parts; they are only appendices of the metropolitan firm and do not undertake the entire process of production; thus safeguarding the technological secrets of the metropolitan countries.

While Frank (1967) calls for a world-wide proletariat revolution as a means for overcoming dependency and underdevelopment, Szentes (1971, chapter IV) examines the prospects of how dependency could be liquidated prior to the collapse of capitalism. According to Szentes (1971): "Though underdevelopment is an international product, development still has a basically national framework" (Szentes, 1971, p 293); however, the process of elimination of underdevelopment within the national economy is an extremely complex task.



The process involves the breaking of monopolistic position of foreign capital and the transformation of the distorted structure of the economy and the society via agricultural development, industrialization and state planning. Among the lesser steps that should be taken are the establishment of national banks, airlines, indigenous investment and development corporations, domestically trained technicians and professionals. For that reason, massive state intervention in the economy is a precondition for the liquidation of underdevelopment. To this purpose what is essential is a "centrally coordinated development programme" (Szentes, 1971, p 297) which would enforce restriction and regulation of economic spontaneity arising from the existence of private capital, the primary task being the development of productive forces and the creation of an integrated national economy. Implicitly Szentes has proposed for state capitalism, which may further develop either into capitalism or socialism. Judging from the trends that are occurring in Eastern Europe, it is explicit that market-oriented economies are more attractive than socialism.

### CRITIQUE OF DEPENDENCY THEORY

While not in disagreement with many aspects of the analyses inspired by the dependency approach, critics of dependency theory have argued that the viability of key analytical notions of dependence itself is questionable. Lall (1975), for example, recognizes dependence as a continuous variable affecting different nations as a matter of degree, and views dependence "in terms of a pyramidal structure of socio-cultural dominance (a scale rather than a unique condition of dependence) in the capitalist world, with the top hegemonic position held by the most powerful capitalist country and the bottom by the smallest and poorest ones, and a more or less continuous range occupied by



various developed countries, with relative position changing between the two" (Lall, 1975, p 803). Therefore it is quite impossible to distinguish dependent from non-dependent economies; and there are several examples of a number of advanced countries that depend heavily on foreigners for their industrial technology, such as Canada, Belgium and Denmark (Lall, 1975, p 804). In addition, Lall refutes the "analytical usefulness of lumping different types and stages of the capitalist development process in the various less developed economies under one category of dependence" (Lall, 1975, p 806). Furthermore Frank's (1967) metropolis-satellite dichotomy differed little from the modernization theory's traditional-modern dichotomy, and there was no adequate classification between different modes of production and because of that any production for a market meant the existence of capitalism.

Other critics also argue on the ambiguity of the distinctions between dependency and inter-dependence. Webster (1984, p 87) argues that dependence growth is not unique to the Third World. Canada depends heavily on capital from the United States and yet it is a developed economy, while the United States is dependent on Third World reserves as demonstrated by the oil crisis of 1973.

Cardoso (1982, pp 118-9)[1972] argues that instead of "development of underdevelopment" there occurs a kind of dependent capitalist development in the Third World. In countries like Argentina, Brazil, Mexico and India there is an internal structural fragmentation. The most advanced sectors of their economies are connected to the international capitalist system, while the backward economic and social sectors of these countries become "internal colonies" and are subordinate to the advanced sectors. What happens further is the creation of dualism in terms of internal differentiations due to capitalist expansion. This state of dualism is functional to capitalist expansion because it

helps to keep wages at a low level and diminishes political pressures inside the modern sector since the social and economic position of those belonging to this sector is always better in comparative terms.

Underdevelopment, according to Frank (1969) is measured in terms of the exchange and transfer of the surplus from satellites to metropolises, but he did not examine the way in which the surplus is sucked out of the satellites. Laclau (1971) argues that the existence of capital and a market did not define a capitalist mode of production. He further argues that it is crucial to know how the surplus that is extracted is produced and whether there are specific characteristics of the productive system that limit its development. Laclau (1971) mentions the fact that capitalist development has taken place in Third World countries. For example, transnational corporations are located in several Third World countries and these enterprises pay low wages in order to maintain profitability and thereby exploit the surplus value of labour. Frank (1967), on the other hand, did not mention or analyse the exploitation of surplus value of labour.

Warren's (1973) critique of theories of neo-colonialism is argued basically on the premise that capitalism liberates rather than suppresses development in the Third World, and that "political reaction, dependence on and alliance with the US (or other) imperialism, plus economic nationalism may be a very handy combination for an undeveloped capitalist country attempting to become more advanced" (Warren, 1973, p 11). Thus the assertion that capitalism caused underdevelopment was not true since this assertion would deny the possibility of development occurring along capitalist lines in Third World countries. Furthermore, Warren (1980) argues that aspects of underdevelopment or dependency which are being experienced by Third World countries are actually stages of socio-economic transition to capitalism, and he concluded that



colonialism and capitalism have been positive factors in Third World development (Warren, 1980, pp 128-9). Moreover, Frank (1969) did not show how a revolutionary change can take place in the satellite, although he claims it is the only way of removing world poverty. The problem here is that both could be said to be right, depending what is defined as "colonialism" or "capitalism".

Although "dependency" may be a useful descriptive term in referring to certain aspects and implications of international class relations, there is no reference to class formation or the mechanisms of neo-colonial transition and the development of foreign and local-comprador classes in the satellite economies. Leys (1975) points to the "heavily economistic character of most underdevelopment theory" (Leys, 1975, p 20), despite a commitment to historical and non-disciplinary analysis. Underdevelopment literature tend to accept the pervasiveness and continuance of capitalism and offer somewhat apocalyptic proletariat/socialist revolution as the only alternative to exploitation and underdevelopment. What is needed is both a more detailed analysis of the economic and social history of prior development and a more detailed and programmatic exposition of "practicable" steps towards institutional change.

Leys (1975) criticises the failure of underdevelopment theorists to comprehend the fact that a country's social formations play an important part in the exploitation of dominant classes on the masses. As a result, underdevelopment theory "concentrates on what happens to the underdeveloped countries at the hands of imperialism and colonialism rather than on the total historical process involved, including the various forms of struggle against imperialism and colonialism which grow out of the conditions of underdevelopment" (Leys, 1975, p 20)).



On the point of a revolutionary break with capitalism, Leys (1975, p 23) stresses that this will call for a large degree of enforced collectivism in return to what may be a faint chance of success. As the probable social cost of revolution is held to be higher than that of underdevelopment, Leys (1975, p 24) suggested that underdeveloped countries should either play a very subordinate role in the international capitalist system or seek an independent role in an alternative system of poorer but non-capitalist countries.

By the mid-1970s critics of dependency theory nurtured the notion that capitalism generates growth in satellite countries, whereas dependency theorists underlined the prevalence of economic stagnation, due to the extraction of surplus, in the satellite countries. Neo-marxist critics of Frank's dependency theory, like Wallerstein (1974, 1979) and Amin (1974) outlined alternative varieties of the dependency theory, by relating dependency to a single "world-system" type of analysis.

### WORLD SYSTEM

Wallerstein (1979) suggests the only kind of social system that exists today is a world-system which he defines as "a unit with a single division of labour and multiple cultural systems ..... there can (however) be two varieties of such world-systems, one with a common political system and one without. We shall designate these respectively as world-empires and world-economies" (Wallerstein, 1979, p 5).

Example of world-empires are the pre-modern civilizations of Egypt, China and Rome and the Islamic empires of the Middle Ages; where economic exchange occurred via long distance trade and were basically redistributive in

economic form. In contrast the emergence of the modern world economy in sixteenth century Europe resulted in European economic predominance of market trade or capitalism. Therefore the essential character of the world-system is that it is a capitalist world-economy.

Wallerstein (1979, p 18) postulates that the capitalist world economy is based upon three structural positions: core, periphery and semi-periphery, and had become stabilized by about 1640. The strength of the state machinery in core states is a function of the weakness of other state machineries. Core states are the strongest while those in the periphery are the weakest. Intervention of core states upon peripheral states occur through war, subversion and diplomacy.

The functioning of a capitalist world-economy requires that countries pursue their economic interests within a single market. The core states seek to distort the market for their benefit by exerting influence on the weaker states, and by avoiding the normal operations of the market whenever it does not maximize their profit. Thus we get the operation of "unequal exchange" (Wallerstein, 1979, p 18), resulting in an appropriation of surplus value of the whole world-economy by core areas.

One reason for the creation of a semi-peripheral structural position is its role in making a capitalist world-economy run smoothly (Wallerstein, 1979, p 21). Although it appears that semi-peripheral states are accorded a specific economic role, in actual fact the reasons for the existence of these states are less economic and more political. Accordingly, the core is not faced with a unified opposition from the periphery because of the existence of a middle stratum which is both exploited and exploiter. Thus political reasons are the basis for the emergence of semi-peripheral states, and they assume a mediating role, in politics and economics, between the core and the periphery.



Hoogvelt (1982, p 193) points out that the semi-peripheral states are the middle-income countries, who take advantage of rising wages and a decline in the comparative costs of production in the core countries. These semi-peripheral states import technology from the core states and export semi-processed products to them. It is within this context that Brazil had purchased Germany's Volkswagen plant, inclusive of trade-mark, technology, plant and machinery. Automobiles and steel, being the declining sectors in core countries are the rising sector in the semi-peripheral states. At the same time the semi-peripheral states import raw materials from the periphery and export finished manufactures to the periphery. Another example of a semi-peripheral state is South Korea, a country which produces its own Hyundai automobiles and heavy vehicles, and additionally produce finished manufactures, particularly electrical and electronic goods, for export to the core and peripheral countries.

While there is the possibility of semi-peripheral states improving their position while peripheral states upgrade to become semi-peripherals, it is not possible for all countries to develop simultaneously because the basic nature of the capitalist system limits entry into its middle and top levels. therefore the development of some countries are at the expense of others. Furthermore, as we shall illustrate below, it is safe to assume that the development of some peripheral states are covertly corroborated by stronger semi-peripheral and core states.

Malaysia is an explicit example of a peripheral state which is trying to upgrade itself. This is evidenced by the state's promotion, since 1984, of trade relations with South Pacific countries like Tonga, Fiji and Papua New Guinea; a move which could be interpreted as the Malaysian state's strategy to dominate the trade of these tiny Pacific states. Likewise, during the Fourth Malaysia Plan



period (1981-85) the Malaysian government's Heavy Industries Corporation (HICOM) established several joint venture projects with Japanese and South Korean concerns, which include a cement plant in Kedah, a steel billet plant in Trengganu, and the Malaysian car project. The automobile project, a joint venture between HICOM and Japan's Mitsubishi Corporation, launched a new prototype car Proton, which rolled off the assembly plant in mid-1985. The state aimed to dominate the domestic automobile market, thus driving out the existing producers, and on this basis develop the skills and engineering capacity to produce for the export market<sup>2</sup>. Currently, twelve different models of Proton are exported to Western countries including the United States and Britain.

For other peripheral countries that want to improve themselves, Wallerstein (1979, p 76) suggests three different strategies: the strategy of seizing the chance, the strategy of promotion by invitation, and the strategy of self-reliance. The strategy of seizing the chance means that at moments of world-market contraction, peripheral states take advantage of the weakened political position of the core states and try to negate their economic problems relating to balance-of-payments, unemployment and a reduction of state income by introducing import substitution industries. examples of states that have followed this path are Brazil, Mexico and South Korea. However, this strategy has one disadvantage, since industrial development

---

2. In arguing against Malaysia's automobile project, Karmokolias (1990) asserts that in developing countries there appear to be more opportunities in component than car manufacturing. The production of less-intensive, simple technology components such as wire harnesses, upholstery, interior trimmings, batteries, exhaust systems and odometers will be feasible in less technologically advanced countries, like Malaysia. Automotive component exports from Malaysia increased from US\$2.7 million in 1980 to US\$3.7 million in 1985 to US\$5.7 million in 1987, an increase of 37 percent between 1980 to 1987 (Karmokolias, 1990, table 2, p 49).

leads these states to import machines from core states and thus technological dependence becomes inevitable.

The second strategy of promotion by invitation occurs in times of world-market expansion, through economic and political collaboration with external capitalists. Several peripheral countries have experienced rapid economic growth by encouraging foreign capital investment in the manufactured exports sector. Countries like Taiwan, Singapore, Hong Kong, Malaysia, Sri Lanka and Mauritius make enormous efforts in inviting transnational corporations to locate their industries in special "export processing zones" in each of those countries. Industries that are located in these countries are mainly light industries such as electronics and textiles and garments; unlike the intermediate level of heavier industries, such as the automobile industry, found in Brazil and South Korea, and now in Malaysia.

The third strategy of development for a peripheral country is that of self-reliance. Tanzania is a prime example of this type of strategy. In the Arusha Declaration of 1967 Tanzania adopted the *ujamaa* path to development. This meant the nationalization of most of the small industries and commercial sector in the country, and placed rural development on the *ujamaa* principle at the forefront of development strategy. The Tanzanian state emphasized priority to rural development, as against the previous policy of giving priority to urban areas, industrialization and foreign investment. The *ujamaa* village is a nucleated settlement of peasants, dependent mainly on agriculture, working on a communal production, although individual households are allowed to retain private plots on which they grow crops for their own consumption.



How far has Tanzania succeeded in self-reliance? Hyden (1980, pp 115-16) commented that the *ujamaa* programme has not been totally successful; with poor performance in food production and earnings from communal work in most *ujamaa* villages were very low. Furthermore, food imports also rose. Maize imports rose from 92,000 tons in 1972 to nearly 300,000 tons in 1974; while wheat imports rose from 46,000 tons in 1972 to 47,000 tons in 1974 (Hyden, 1980, p 141). Also, Tanzania faced an enormous balance-of-payments problem, and that in 1979 and 1980 the country's total balance-of-payment deficit was £620 million (Kitching, 1989, p 118).

Nevertheless, Kitching (1989, p 123) agrees that the process of "villagization" resulted in several positive features. These include the provision of basic social services to the rural population, near-universal primary schooling, a quite successful adult literacy drive, a system of preventive and curative health care, and the provision of clean water supply in rural areas.

Our discussion thus far appears to imply that dependency is a problem specific to underdeveloped Third World countries. Contrary to this belief, in an analysis of 146 countries, both in the centre and periphery, and by constructing an index of economic, political and socio-cultural dependency, Richards (1987) concludes that "the empirical results give no evidence that the dependency problem is an exclusive attribute of underdeveloped capitalist economies" and that "socialist revolution in the Third World is not a sufficient condition for autonomous political-economic development" (Richards, 1987, p 21).



All 146 countries in Richards' (1987) sample are ranked according to the factors of dependency mentioned in the preceding paragraph<sup>3</sup>. For social, technological and cultural dependence (an indication of the means by which the socio-cultural and technological structures of dependent nations are penetrated and permeated by the ideas and values systems of centre industrialized countries), 16 out of the top 20 positions are African countries, like Ruwanda, Upper Volta and Liberia.

The most interesting observation is that Canada and Mexico rank first and second respectively in terms of trade dependency, a fact explained by these countries' proximity to the undisputed centre of the world capitalist economy, the United States.

In terms of financial dependency, Latin American countries accounted for 12 out of the top 20 positions and that 10 out of the top 20 most financially dependent countries are Third World nations which fall into Wallerstein's (1979) semi-peripheral countries, such as Brazil, Argentina, Mexico and India.

3. Malaysia's order of rank according to the various dependency factors are as follows:

<u>Dependency factor</u>	<u>Rank-order</u>
Socio-cultural	33
Foreign trade dependency	29
Commodity concentration ratio	99
Finance	74
Military	71

Source: Richards (1987), Table 3, pp 13-14 (adapted).

Where military dependency is concerned, African countries have a high degree of dependence, given that much of Africa is politically and militarily unstable. Also, a number of highly military dependent countries happen to be vital American strategic interests, such as Egypt, Israel, South Korea, Taiwan and Turkey.

### GLOBAL ACCUMULATION OF CAPITAL

One other alternative form of dependency analysis as expounded by Amin (1974, 1976), examines world capitalism in terms of two categories: the centre and the periphery. In his model of the global accumulation of capital, Amin (1974) defines two distinctive patterns: "one applying to development at the centre, the other to dependent development in the periphery. Central development is characterised by the dominance of economic activity to satisfy mass consumer needs and the consequent demand for production goods. The power of the masses is enlisted in a "social contract" which allows the establishment of a limited economic viability, at a national level. However the internationalisation of productive capital increasingly threatens that stability. The peripheral systems are dominated by production of luxury goods and exports and the consequent lack of importance to internal mass markets. This leads to growing inequality, technological dependence, political weakness among oppressed - in sum, marginalization" (Amin, 1974, p 9).

The basic difference between the centre and the periphery is that capitalist relations in the centre developed on the basis of expansion of the home market, whereas capitalist relations in the periphery were introduced from outside. Furthermore, peripheral countries which have achieved rapid industrial growth through export-oriented manufacturing sectors, such as Taiwan, Singapore and



Malaysia, are few in number, and, in view of political instability in the Third World countries, are unlikely to be extended to all Third World countries.

According to Amin (1976) growth in peripheral economies is "blocked" since the periphery is "complementary and dominated" (Amin, 1976, p 288) by the centre. Peripheral countries are prevented from accumulating capital indigenously, since capital at the periphery is transferred to the centre. Economic relations between the centre and the periphery is characterised by the centre's domination on the periphery. This results in an "unequal exchange" (Amin, 1974, p 13) between the centre and the periphery. In the theory of unequal exchange it means: "the products exported to the periphery are important to the extent [that] the return to labour will be less than what it is at the centre. And it can be less to the extent that society will, by every means - economic and non-economic, be made subject to this new function, i.e. providing cheap labour to the export sector" (Amin, 1974, p 13). The wage rate of the export sector is kept as low as the economic, social and political conditions allow it to be.

As a result of this super-exploitation in the production of commodities which the Third World exchange with the industrialised countries, there is a form of hidden transfers of value from the periphery to the centre. Amin (1976, p 144) estimated the amount was US\$22 billion annually, or twice the amount of aid and private capital that the periphery received. While this amount is negligible from the point of view of the centre as it amounted to only two or three percent of their gross internal product, it is significant to peripheral states as it represented 20 percent of their GNP; sufficient to account for the blocking of the growth of the peripheral and increase the gap between the centre and the periphery. It is this unequal exploitation that leads to unequal exchange which in turn leads to unequal development. The structure of the economy and



society in peripheral states continually reproduces the condition for renewed unequal exchange in new historical periods and circumstances.

Amin (1974, p 19) proposes that only a radical and complete break with the world capitalist system will provide the necessary conditions for genuine development, and that the problem of underdevelopment can be definitely overcome within a global socialist society. However, Amin (1974) did not explain how the change can take place because the basic problem with Amin's writings is that they lacked the notion of differentiation. Smith (1982, pp 12-18) criticises Amin's insistence on essential unity of peripheral states despite the diversity of national economies between various Third World countries. Amin (1974) believes that the economic and social structure of the peripheral states can only be comprehended at the world level. Thus differences between, for example, Brazil and Nigeria or India and Tanzania are dismissed as secondary. Amin (1974) ignores the political implications of these differences which have effects on the economic, social and political organization in each peripheral state. By assuming that the national economy of the peripheral have no freedom of manoeuvre in relation to world capitalism, Amin (1974), therefore, denies that national economic policy has a legitimate role to play in the process of political struggle and dispute. Policies towards transnational corporations, policies towards wages (which significantly affects income distribution) and policies on trade unions, for example, all have significant effects on the conditions of operation of capitalism.

Likewise, the lack of differentiation also makes it difficult to organise and direct locally relevant political protests and class struggles in the peripheral countries. For instance, industrialisation in North Nigeria did not bring about labour exploitation, unlike the super-exploited labour in Southeast Asia. Therefore social and political forces representing the interests of workers in

Southeast Asia would necessarily reflect the struggle to protect their rights, while that may not be the case with Nigerian workers. Thus the national economy is a vital unit of analysis because political struggle is organised at the national or sub-national level and not at the global level.

Amin's (1974) call for a complete break with the world capitalist system has been dismissed as "dangerous arrogance" by Smith (1982, p 20). Kampuchea is a tragic example of a peripheral country which tried to isolate itself from the world capitalist system, with disastrous consequences. In its attempt to withdraw from the world economy while striving for an agricultural self-sufficiency rural order, the regime relied on repression and provoked the wrath of many other countries, particularly Vietnam.

### FOOD IMPERIALISM

Contrary to Samir Amin's proposals of a complete break with the capitalist economies, there are several examples that illustrate how central capitalist interests have sought a variety of means to influence the consumption habits in peripheral countries and therefore create consumer dependency. For instance, food imperialism is a common phenomenon in several underdeveloped countries. In a study concerning the relationship between bread and underdevelopment in Nigeria, Andrae and Beckman (1985) argue that from being self-sufficient in food until the late 1960s, Nigeria has become trapped by the entrenchment of wheat bread as a staple food and the increasing dependence on North American wheat - over 90 percent of the wheat imported into Nigeria comes from the United States. The availability of foreign exchange earnings from oil enabled the Nigerian economy to have access to rapidly rising, cheap imports. Hence bread enters into a consumption pattern



where grains such as sorghum and millet and other starchy foods such as cassava and legumes account for three-quarters of the food intake in the average household. Wheat imports increased dramatically; from an average level of 75,000 tons per annum in the first half of the 1960s, wheat imports had increased by eighteen times this level to 1.5 million tonnes in 1981, and to a further 1.8 million tonnes in 1984 (Andrae and Beckman, 1985, p 18).

Nigeria's commitment to a self-reliance food policy have led to a "misguided" policy of producing wheat instead of other grains such as millet and sorghum, which previously constituted a large proportion of the people's diet. Optimistic assumptions by foreign consultants resulted in a massive misdirection of national resources. The factory gate cost of domestic wheat was estimated at some six to eight times the cost of imported wheat while the value of subsidy of domestic wheat was equivalent to one tenth of total government revenue in 1980 (Andrae and Beckman, 1985, pp 126;127), bearing in mind that at the same time Nigeria was faced with a foreign exchange crisis due to a decline in oil revenue.

Thus wheat has become not only an important source of foreign exchange for the United States but also it is a foreign political tool of much political potential (Andrae and Beckman, p 140). The wheat trade consists of a high level of concentrated transnational corporate power which is actively supported by the United States government. In Nigeria the importation of wheat is accompanied by a rapid diffusion of advanced processing technology in milling and baking, which highly enhances the competitive force of wheat compared to domestic food processing, which is highly labour intensive and closely tied to the household economy. Therefore purchasing bread in the market is a more convenient alternative for consumers.



Andrae and Beckman (1985, pp 153-156) recommended several options for Nigeria to disengage itself from the "wheat trap". For example, a large proportion of the wheat content in a loaf of bread could be substituted with local crops such as sorghum, maize, millet and cassava. A cut in the supply of cheap wheat imports, such as by raising the prices, might increase demand for the mixed bread variety. In addition there is ample scope for developing the local food processing technology so that producers can perform labour saving functions that are essential in making bread attractive to the consumers. Furthermore the question of self-sufficiency in food production can be solved by relying on the vast scope for commercial transformation of peasant production, incorporating new forms of ownership and control of land and labour.

Another example which illustrates the link between imperialism and self-reliance in food production could be seen in the Yemen, a country that has an established tradition of emigration. Enclaves of Yemeni workers are found in Britain and North America, and prior to the 1990 Gulf crisis Yemeni workers were employed throughout the Arab peninsula and the Gulf States.

Private transfers from emigrant workers have come to play a major role in the balance-of-payments of the country. From a level of 328 million Yemeni Rials or 14 percent of the national disposable income in 1971/72, private transfers rose to a peak level of 6351 million Yemeni Rials or 46 percent of the national disposable income in 1977/78 (el-Mallakh, 1986, p 44). As a result of these private transfers the country was able to overcome a persistent balance-of-trade deficit and enjoy positive balance-of-payments current account in the mid-1970s. However, trends in the 1980s showed a decline in the level of private transfers. By 1984 it amounted to only 4417 million Yemeni Rials, a drop of 21 percent from the level of the previous year (el-Mallakh, 1986, p 44). The

decline in the level of private transfers was due to the decrease in demand for Yemeni workers in the Gulf states and Saudi Arabia, where there is a preference for the more skilled Asian labour force from Korea, Thailand and the Philippines. Moreover, the massive construction programmes initiated in the early 1970s had begun to subside in the 1980s. At present it could be safely presumed that the amount of private transfers would continue to decrease substantially as a result of the repatriation of Yemeni workers from Saudi Arabia, as a consequence of the Yemen's support for Iraq in the Gulf War, which took effect from September 1990.

A drop in the level of remittances prompted the Yemeni government to adopt an austerity programme in 1983, which called for increased tariffs, cuts in the budget allocations and measures to curb imports. Although in 1984 private transfers dropped quite substantially by 21 percent, the government was able to reduce its balance-of-payments deficit by 41 percent, mainly due to its reduction in imports (el-Mallakh, 1986, p 44).

Emigration has significant effects on the domestic labour force, particularly in the agricultural sector, as a typical Yemeni emigrant is a rural unskilled young male worker. As a consequent, the Yemen relies quite substantially on imported food. Food imports increased from a level of 2033.7 million Yemeni Rials or 26.5 percent of total imports in 1979/80 to 2209.4 million Yemeni Rials or 32 percent of total imports in 1982. Meanwhile, in 1976 domestic cereal production yielded a marketable surplus of 119,222 tons; but between 1976 and 1980 domestic cereal production dropped by 17 percent, causing a deficit of 53,500 tons in 1980 (el-Mallakh, 1986, pp 156;158). Simultaneously cereal imports increased from 158,000 tonnes in 1974 to 247,000 tonnes in 1986, while food aid in cereals expanded from 33,000 tonnes in 1974/75 to 57,000 tonnes in 1985/86 (World Bank, 1988, p 234). Subsidised grain



imports from the West have the effect of undermining local prices, leaving little incentive for farmers to cultivate the traditional cereals of sorghum, millet and barley. Table 2.2 shows the comparative grain retail prices in a local market in Dhamar for the years 1980 -82, which shows that prices of imported grains are comparatively cheaper than those of home-grown grains.

Table 2.2

Comparative Prices of Grains  
(in Yemeni Rials)

	1980	1981	1982
Imported wheat	2.19	2.13	2.15
Local sorghum (red)	3.00	2.50	2.04
Local sorghum (white)	3.00	2.75	2.87

Source: Swagman (1988), Table 7, p 54.

Traditional cereal production is both land and labour intensive, besides, emigration has caused scarcity of agricultural labour. In general cereals and grains are produced for home consumption, any surpluses are given away as gifts to relatives and close friends. Only the larger landowners are able to produce surpluses for the market. However, there is a lack of a well-structured market for selling surplus grains. Since it is traditionally dishonourable for tribesmen - the main producers of cereals - to have close dealings with the *sug* (the market), surpluses are marketed through agents or middlemen. (Swagman, 1988, p 52). Moreover, changing patterns of consumer tastes has reduced the demand for local cereals in the urban areas. Consumers prefer white loaves or *ruti* and *shami*, two types of bread made of white flour and produced in commercial bakeries (Swagman, 1988, p 54).



In consequence, the government's call for an increase in domestic cereal production and improve its competitiveness with cereal imports may not be effective without the necessary legislation, like restriction of grain imports and the abolition of food aid. Subsidies for domestic grain may be a viable policy provided that there is no competition from imported grain.

A popular alternative to domestic cereal production is the Yemeni farmers' preference for the cultivation of qat<sup>4</sup>, due to its low labour and minimal input requirements, and yet provide high returns. Weir (1985, p 73) estimated that for a typical individual land-holding of 0.2 hectare the annual gross income for the qat farmer is US\$5000 to US\$7000, and of this 85 percent is net profit. The gross margin per hectare of qat in comparison with all other crops is at least tenfold. Unlike local grains and cereals, a vast marketing network exists for qat. For transporting a sack of qat bunches on his back from the fields to the regional market, a porter is able to earn 100 Yemeni Rials per trip (Swagman, 1988, p 58). A qat agent in Sana'a was reported to be earning 30,000 Yemeni Rials in one month (ibid.).

Qat and coffee can be cultivated under similar soil and weather conditions. Hence it is financially advantageous to cultivate qat rather than coffee, because the rewards for labour in coffee production is estimated to be 39 Yemeni Rials per man-day; whereas in qat production the amount is 161 Yemeni Rial per man-day, increasing to around 700 Yemeni Rials per man-day in the second year of production (El-Mallakh, 1986, p 100). While agriculture on the whole made up 61.4 percent of the GDP in 1973-74, the qat industry alone contributed to one-third of the GDP (Kennedy, 1987, p 133).

---

4. Qat or *Catha edulis*, is an evergreen shrub; the shoots and new leaves, when chewed, produces a mild stimulant.

It has been argued that in general returns from the cultivation of qat has redistributive effects on agricultural development. Weir (1985) stressed on the economic impact of qat cultivation. In the mid-1970s revenues from the sale of qat, it was assumed, have enabled a mountain village community to construct a dirt track linking their village and the Red Sea port of Hoedaida. Hence, "the advent of motor transport resulted in a dramatic increase in commercial activity generally, and a wide range of foodstuffs and other commodities could now be imported cheaply" (Weir, 1985, pp 79-80). Money was also invested in the building of shops in the market-place, drilling wells and the installation of water-pumps.

Nevertheless, we should be aware that the period of the mid-1970s coincided with the boom period in the oil-producing countries, which resulted in a tremendous increase in the amount of private transfers received from Yemeni emigrant workers. Remittances could have been the major financial factor in initiating development in the village communities of Yemen.

The economic benefits of qat production accrues to individual farmers only, and if any benefits that accrue to local communities these are the result of private investments as mentioned in the preceding paragraph. The state does not benefit directly from the sales of qat, precisely because of the unreliable tax system. Kennedy (1987, p 157) mentions a field tax equivalent to 10 percent of the commercial value of the crop, which is not always correctly assessed, and because the tax collectors are local residents, farmers often evade the tax altogether.

The institutionalization of qat use has been well documented (Makhlouf, 1979; Weir, 1985; Kennedy, 1987). Qat parties are seen as an essential medium of



social interaction. It is common for people to spend up to a third of their incomes on qat (Weir, 1985, p 107). Bornstein (1974, pp 30-32) estimated that in Sana'a, on average, expenditure on qat amounted to 13 percent of total household budgets, compared to 11.5 percent on meat, fish and eggs and over 15 percent on cereals.

This study, however, contends that such studies which support the constructive economic, social and cultural impact of qat cultivation in the Yemen are in reality an ultimate campaign which mislead farmers on priorities for food-crop cultivation, and an attempt to inculcate the "transfer-of-taste" by the consumption of imported foodstuff. If the claims by Western researchers that farmers could reap higher financial returns from the cultivation of qat goes without challenge from the Yemeni government, in the long-term it would jeopardise the policy of self-reliance in food production. The expansion of domestic food production is vital for the reproduction of an expanding labour force. Without proper marketing and pricing systems that can provide incentives for farmers, an increase in the production of food crops will be dismal.

Since the relations between the centre and the periphery are relations of domination, then food dependence on the part of the periphery is used both as an economic and political tool by the centre. The case of a peripheral country, like the Yemen, not being able to feed her population adequately is not because of backwardness of her agricultural productivity but rather as a result of imperialist domination. As George (1988), concedes "food aid programmes can create or simply increase dependency on foreign types of food ..... and it is part and parcel of the wider problem of the penetration of the economy and culture of the third world countries by the ideology and the products of the rich countries" (George, 1988, p 134). Both the poor, and perhaps to a larger



extent, the rich in Third World countries are affected by increasing dependency on foreign products, such as tinned milk or milk powder or the craze for fast-food such as beef-burgers. While it is true that food aid programmes are necessary in cases of famine and hunger, George (1988, p 135) points out that famines are not caused by the overall lack of food but rather they are caused by unequal distribution of food and/or money to buy food; and therefore any policies addressed to rectify such problems must reflect on this specific point.

In the final analysis, the expansion of domestic food production necessarily must take effect before the import capacity of the economy collapses, not only due to a fall in revenues but because of competing claims on export earnings, and above all to disengage the country from food imperialism. Clearly there is a strong case for the commercialisation of peasant economy in the expansion of domestic food production. There is a compelling awareness amongst less developed countries of their commitment towards self-reliance in food production. The critical point, however, is that politicians, administrators, scientists and workers must be prepared to tolerate a decline in real income in support of a policy of self-reliance and break the comprador nexus. In the long-run the welfare and survival of workers depend a lot on a policy of food self-reliance.

Thus far, this chapter has highlighted on different themes that help to explain the "structural control" of development, which has to be understood for two reasons with reference to the poorest sections of the population in Malaysia and elsewhere. First, social security can only be explained and its potentialities revealed in relation to the institutions of "structural control". Second, more generally, the conditions of life of the poor extend to matters outside social security or its influence - like national diet and food consumption.

## **SHIFTING ECONOMIC TRENDS**

What has emerged in the international economic scenario is not only the unevenness of accumulation between the First World and the Third World, but there are ample evidence of uneven development within the Third World itself. South Korea, for example, has begun to escape the trap of dependence on foreign technology. The country is capable of developing its own capacity for technological innovation and manufactures electrical and electronics goods. For instance, appliances manufactured by Samsung Electronics of Korea are marketed in Britain.

Luedde-Neurath (1988) discloses how the South Korean market remains relatively impervious to foreign goods and services. The state keeps strict controls over exchange rates, finance and export licenses. All foreign investments are tightly screened and must conform to strict guide-lines on technology transfer, licensing agreements, local purchasing and contract rates. Even so state officials arbitrarily refuse permission to foreign investors if they decide it is not in the national interest.

On yet another spectrum, contrary to the call for global socialism by dependency theorists, unprecedented political revolutions in Eastern Europe in 1989 showed that socialist countries are transforming into market economies. This new trend began in Poland in mid-1989, when a controlled free elections enabled Solidarity to win the majority of contested seats and formed a new government. Political changes in Poland were followed by events in Hungary, the government of which announced the demise of the communist party in the autumn of 1989. Next came changes in East Germany and the opening up of the Berlin Wall, and the proposed unification of East and West Germany.



Political revolution also took place in Bulgaria and Czechoslovakia; and finally at the end of 1989, amidst enormous bloodshed, came the political liberalisation of Rumania.

The political liberalisation of these Eastern European countries also meant the reform of their Soviet-type central planning economic systems. Hare (1990, p 5) mentions that since 1980 Hungary had initiated several market-oriented economic reform, such as the formation of commercial banks, the establishment of small-scale production units, and the introduction of legislation allowing for the formation of joint-stock or the limited liability companies. In 1988 Hungary reformed its tax system, introduced personal income tax and a form of value-added tax.

In addition, several other capitalistic trends have transpired as a result of the political changes in Eastern Europe. In the transformation into market economies these countries have to depend on Western economic support, given in the form of loans by agencies such as the International Monetary Fund, the World Bank, and the European Community. Furthermore, Western European countries, like France and Britain have announced their willingness to extend educational training and technical assistance to East European countries; thus increasing the West's financial and technological as well as cultural domination.

### SUMMARY AND CONCLUDING REMARKS

This section will summarise the arguments that have been developed in this chapter. The discussion has reviewed the main paradigms in the development debate, which are the modernization, the dependency and the world-system perspectives.



This study repudiates the modernization perspective because it stresses upon the diffusion of Western notions of development that are more often not suitable for Third World countries. On the other hand, the dependency perspective is more dynamic in its analysis of development and underdevelopment, since it traces the historical causes of a country's economic backwardness, and thus has contributed greatly to our understanding of the development and underdevelopment debate. Nevertheless, the dependency theorists have failed in their call for global socialism and therefore their ideas have not been tested adequately.

Additionally, the discussion analysed the world-system perspective based primarily on the writings of Immanuel Wallerstein. This is the preferred perspective adopted in this study. By giving more priority to social factors of development this perspective allows a better interpretation of the economic underdevelopment, especially pertaining to Malaysia. However, this approach cannot be accepted unequivocally without drawing upon the various valuable insights offered by the other approaches critically reviewed earlier in this chapter.

In the adoption of the ideas emanating from the thinking of world-system theorists, this study nevertheless does not recommend total disengagement from global capitalism. Instead, as will be explained in the following paragraphs, what is essential is the attempt to reconcile the national economy's vulnerability to external forces by adopting selective delinking strategies which will lessen dependence on the global economic system.

The strategy of self reliance as advocated by world systems theorists implies giving priority to social factors of development. This further implies

developing more concern for social policies. Within this framework priority must be accorded firstly for policies that promote food self-reliance in order to sustain the local economy and provide long-term employment especially for the rural population. A food self-reliance policy necessitates priorities allocated for developing technical and financial infrastructure, so that food production would be more lucrative compared to, for instance, unskilled production work in transnational corporations.

Additionally, priority must be allocated to building agricultural processing industries and to producing consumer goods; therefore replacing previously foreign activities with locally-sustained ones of a non-exploitative nature. The long-term goal is to reduce dependency on foreign imports and also to expand selected export sectors. Relations with the centre countries are to be kept to a minimum in favour of exchanges with developing countries. For a peripheral country to be self-sustaining the bulk of the surplus must be invested in domestic production, not transferred or repatriated to the centre countries.

It follows that if the national income is less dependent on fluctuations of world prices of raw materials, for instance, there are more possibilities to generate resources for a programme of social security, encompassing minimal but equitable standards of provision, that would cover contingencies at all levels for wage-labour, the self-employed, the aged, the handicapped and children.

Since the transfer of surplus from the peripheral<sup>y</sup> to the centre is the hallmark of capitalism, admittedly the vested foreign powers may attempt to block the domestic utilisation of national income and resources; because in the opinion of these powers a peripheral economy must be dependent on foreign powers for its needs - hence aid or loans or both are advanced in



areas of health care, education and technological development. Subsequently, the peripheral economies spends a larger proportion of its income on servicing these loans.

/ What the Third World need<sup>s</sup> to work for is a lessening of the dependence of the Third World on markets, capital and technologies of the First World. There ought to be a greater potential for trade expansion among developing countries, an improvement in their terms of trade vis-a-vis the industrial world, and reduced dependence on transnational corporations. The possibility of autonomous, self-sustained growth for the Third World is currently ruled out by their dependent status.

/ Hence in addition to a policy of self-reliant<sup>ll</sup>, because we cannot totally ignore the existence of a global economic market, there is a need for a stronger co-operation between Third World countries at the regional and international levels. Since Third World countries are relatively weak and therefore likely to be equal partners, they should co-operate more between themselves in trade, exchange of technology and information, establish common institutions and integration schemes as part of a collective self-reliance strategy. In this way relations between Third World countries could be seen as mutually advantageous rather exploitative.

Above all, Third World countries need to continue to press for international agreements and regulations to their advantage, for instance in relation to prices of raw commodities, so that they would be less affected by adversities of global economic crises. A balanced approach between self-reliance in global political economy is the path to success.



## **Chapter Three**

### **COLONIAL MALAYA: PATTERNS OF CONTINUITY AND CHANGE**

#### **INTRODUCTION**

To be able to understand the present state of affairs in the contemporary Malaysian economic structure requires a comprehension of the incorporation of the Malayan economy into the global economic system, the role of the colonial administration shaping the specific character of the country and the social formation that has been created by this process. It is our contention that the type of economic development introduced in the colonial period has led to the state of dependence of the Malaysian economy which has only in part been countered by subsequent policies. Malaysia is highly dependent on other countries, particularly the metropolitan countries, for its trade, financial and technological development, and cannot take a sufficiently "impartial" judgment of the policies to be adopted to meet its needs.

The discussion in this chapter will focus on the historical factors crucial in the formation of the Malaysian economic structure and the subsequent underdevelopment of the economy. Since the discussion encompasses over one hundred years of Malaysia's history, there is no attempt to be exhaustive. Instead the argument will highlight the salient patterns of colonial economic and social control that help to explain the existing inequalities in contemporary Malaysia. Only broad trends will be discussed.

## PENINSULA MALAYSIA - a brief introduction

The topography of the country and physical situation of the environment in which the population live condition many of the difficulties encountered in Malaysian development. The country comprises of Peninsula Malaysia, which is situated on the southern-most part of South East Asia; and Sabah and Sarawak, which are two states on the island of Borneo. Peninsula Malaysia covers an area of 131,794 square kilometres; while Sabah and Sarawak together cover roughly 198,000 square kilometres. A central range of highlands known as the Main Range, which forms the spine of the peninsula, running roughly north-south, separates the western and eastern states, except in the south. The highest point in the peninsula, Gunong Tahan, is about 2207 meters above sea-level. The typical topography of the peninsula consists of the long, narrow coastal fringe of mangrove swamps, bordered by broad alluvial plains of up to sixty kilometres wide in some places. In general settlements are located in the coastal lowlands and river plains. The lowlands gradually rise into the highlands, where hill and highland forests are the typical type of vegetation (Andaya and Andaya, 1982, p 1).

Peninsula Malaysia lies between 1 degree and 7 degrees north of the equator. Average daily temperatures range between 25 degrees to 33 degrees Celsius. Rainfall is heavy, about 2000 to 4000 millimetres per annum. The east coast states of Peninsula Malaysia are prone to the northeast monsoon rains from November to March, while the west coast receives relatively even rainfall (Andaya and Andaya, 1982, p 2).

In 1989 the population of Malaysia was estimated at 17.3 million. Peninsula Malaysia's share of the population was 14.3 million; of which 8.2 million were Malays, 4.5 million Chinese, 1.4 million Indians and 0.09 million other ethnic groups (TER 1988/89, p 7).

## POLITICAL ORGANIZATION

Peninsula Malaysia was formerly known as the Federation of Malaya. The country gained its political independence from Britain on 31 August, 1957. On the same date in 1963 the Federation of Malaysia was formed out of a merger between the former Federation of Malaya, Singapore, Sabah (formerly North Borneo) and Sarawak (like Malaya, the last three states were also former British colonies). Singapore seceded the Federation in 1965<sup>1</sup>.

Malaysia is a federation of eleven states in Peninsula Malaysia, and Sabah and Sarawak. The peninsula states are Perlis, Kedah, Pulau Pinang (also known as Penang), Perak, Selangor, Negri Sembilan, and Melaka on the west coast, and Kelantan, Trengganu and Pahang on the east coast. The southernmost state is Johor. Individual states have their own Sultans as constitutional heads of states. Each state also has its own State Legislative Council, whose members are elected representatives. The states have retained certain rights, particularly the right to alienate new land. This suggests the cautious approach adopted since Federal union to economic and social integration. Previous forms of political control and structure have been allowed to persist in substantial part.

---

1. For accounts on the formation of Malaysia and the reasons for Singapore's secession, refer to Andaya and Andaya, 1982, (pp 270-280); and Bedlington, S.(1978), *Malaysia and Singapore*, Ithaca: Cornell University Press.



At the Federal level the Head of State is the King, a constitutional monarch whose term of office is for a period of five years. Only the nine Malay Sultans have the exclusive right to elect the King from amongst themselves. The Federal Parliament consists of two Houses: the *Dewan Rakyat* (Lower House) whose members are elected, and the *Dewan Negara* (Upper House) whose members are appointed by the King. As a former British colony, Malaysia is a member of the Commonwealth.

### THE MALAY PENINSULA - A BRIEF ECONOMIC HISTORY

During the pre-colonial era the Malay peninsula was sparsely populated and politically disunited. It was covered mostly by dense tropical jungle. At the end of the eighteenth century the peninsula had a population which was probably "no more than a quarter million.....People lived in settlements strung along the coasts and rivers where transport by small boat, drinking water and irrigation water were available. Malay political units.....were shaped around river estuaries where rice growing was easy and where the coastal riverine strings of villages met" (Dobby, 1956, p 128).

The pattern of Malay political and social organization was a feudal one, where authority was handed down through the patrilineal descent. At the apex of the feudal structure was a hereditary ruler, the Sultan or Raja, who personified the state and whose supreme power was legitimized by custom and religion. The Sultan or Raja ruled over a hierarchy of state officials, and it was common for the ruler to delegate authority to his territorial chiefs, especially in the inaccessible parts off the state. This delegation of power allowed the chiefs to exercise various royal privileges such as the right to levy taxes on produce entering or leaving the district. Often, especially in the case of a weak ruler in

power, the territorial chiefs were able to seize authority independently of the Sultan's wishes and to exercise practical authority within their respective areas. In summary, before British intervention in the Malay peninsula, the Malay political system was identified by "the feudal structure, the decentralization of authority, and the local nature of the affairs of the state" (Lim, 1977, p 4).

The peasants formed the base of the Malay political and social structure. They lived in basically self-sustained communities or *kampong* scattered along the coasts and throughout the river valleys of the peninsula. Generally they practised two kinds of cultivation, that is, shifting cultivation on the hill slopes and sedentary cultivation on the lower grounds. Their major crops were rice, sago, bananas, maize, tapioca, sugar cane, pepper and gambier. Supplies were further supplemented by activities like hunting and fishing. Lim (ibid.) mentioned that the levels of material culture was simple and concerned mainly with the basic requirements of food, shelter and clothing. Agricultural production was mainly for subsistence consumption by the producing unit itself, the peasant family.

Additionally the granite ranges of the interior produced rich tin deposits which was washed down by the rivers and deposited in the coastal river beds and alluvial plains. Villagers could pan for tin from the nearby rivers. The tin mining activity was especially important as it was a profitable supplement to agriculture. From the forests came products such as timber, rattan and resin. The Malays may have been active in the distribution and sale of forest products. However, they were not the principal collectors of forest products; this was the task of the forest dwellers or the abrogines. While the hinterlands produced tin and forest products, in the coastal regions there were also rich harvests of sea products such as black coral (Andaya and Andaya, 1982, pp 10; 12). Trade was carried out in the larger villages. Goods such as salt, iron



goods, cloth and ornaments, were bartered for tin, forest and sea products. As a consequence of this form of trade, the Malay economy was based on a monetary system of exchange. The sale of surplus foodstuffs or cash crops to Chinese mining communities also became the main source of income of the Malay peasants (Gullick, 1958, pp 20; 31).

Apart from the Malay peasants of the coastal and riverine settlements a fair number of Chinese had settled in the peninsula since the end of the seventeenth century. Winstedt (1968, p 49) mentions that at the end of the seventeenth century and the beginning of the eighteenth century a certain English Captain Alexander Hamilton estimated about 1000 Chinese families had settled in Johor. Unsettled conditions in South China and especially the outbreak of the Taiping rebellion in 1815 further acted as a stimulus to migration, mainly from the southeast provinces of Kwantung, Fukien and Kwangsi. Purcell (1965, p 259) documented that by 1840 the demand for pepper and gambier had brought more Chinese into Johor. Those who could satisfy the Malay authorities as to their means were allowed to form settlements on the banks of some named river, and the titles were called *Surat Sungai* (literally, river document). Referred to as the *Kangchu* system (literally, owner of the river), this system continued until its abolition in 1917.

Sustained Chinese tin mining in the Malay peninsula began in 1824 (Jackson, 1961, pp 32; 35). By that time some 400 Chinese were said to be working in Perak, presumably in Kinta, as traders and miners. At the same time there were some 200 Chinese miners in Lukut, and in 1828 there were almost 1000 of them in Sungei Ujong, both these mining centres were located in Negri Sembilan. Tin was discovered in Larut, Perak between 1840-1850, and by 1862 there were some 20,000 to 25,000 Chinese miners in Larut.



## EUROPEAN MERCANTILISM IN THE MALAY PENINSULA

As is the case for most underdeveloped countries, trade colonialism formed the first phase in the spread of capitalism and imperialism. British colonisation of Malaya was a result of increasing competition for markets and new materials by metropolitan powers of the West. British trade influence in the Malay peninsula was established in 1786, when the British East India Company started operating in Penang. The company not only engaged in spice trade but it also paved the way for the final takeover by Britain of the whole Malay peninsula about one century later.

Prior to British colonisation of the Malay peninsula, the Portuguese and the Dutch had at one time or another exerted influence in Melaka. The tin and spice trade was the initial motive for the penetration of European mercantile powers in the Malay Archipelago - in particular Portugal announced that it intended to divert the spice trade away from the Moslems (Andaya and Andaya, 1982, p 56). The port of Melaka was located in a strategic position for these powers to gain control over the profitable trade route in the Malay archipelago. The Portuguese captured Melaka in 1511, but in 1641 the Dutch took over control of Melaka. The Dutch <sup>well</sup> was able to preserve their dominant position in the region until the late eighteenth century when, in the political settlement at the end of the Napoleonic Wars, Melaka was ceded to the British in 1795 (Andaya and Andaya, 1982, p 108). Unlike British rule in the Malay peninsula, Portuguese and Dutch rules over Melaka did not transform the social and economic structures of the Malay peasantry.

The British maintained Penang and Melaka mainly as trade bases. However, in 1819 British influence in the region was advanced further when Raffles

acquired Singapore from the Johor Sultanate. The Anglo-Dutch Treaty of 1824 further delineated a British sphere of influence in the Malay peninsula. By then the British possessions of Penang, Melaka and Singapore were established as a crown colony, known as the Straits Settlements (Andaya and Andaya, 1982, p 122). They were regarded adequate for the metropolitan country's interests. The Straits Settlements provided bases which helped to protect the sea link between China and India. As a policy of territorial expansion was likely to be expensive and could provoke a conflict with other metropolitan powers in an area which the British had affirmed considerable influence, the British maintained a policy of non-intervention in the Malay peninsula<sup>2</sup>.

### BRITISH INTERVENTION IN THE PENINSULA

The rapid growth of the Straits Settlements and its economic prosperity in the valuable entrepot trade between the region and the rest of the world led to the presence of foreign interests in the Malay peninsula. European and Chinese economic groups had invested considerably in the Malay states especially in the tin trade. These investors were determined to achieve direct British presence in the Malay states "which would not only protect their investments but also pave the way for the broadening of their operations in the states" (Lim, 1977, p 8).

The Chinese immigrant miners brought along with them their traditional socio-political organizations in the form of triad societies (Andaya and Andaya, 1982, pp 141-143; 149-150). Violent disorders broke out between two rival societies, the Ghee Hin and the Hai San, as they battled for control of mining areas. Simultaneously Malay chiefs scrambled for opportunities to exploit tin

---

2. For an extended discussion on British policy in the period between the signing of the Anglo-Dutch Treaty (1824) and intervention in the peninsula, see Tarling (1957).



resources as the tin ore brought them wealth with which they could buy men and material needed in their pursuit to gain extra territorial rights.

The disorders caused by Chinese triad societies and the power derived from tin exploitation became factors of instability in the Malay political system (Lim, 1977, p 8). In the 1860s and 1870s disputes over succession claims in Perak and Sungei Ujong turned into bloody civil wars. By the same time the British began to reassess their policy of non-intervention in the Malay peninsula. Towards the end of 1873 the Governor of the Straits Settlements, Sir Andrew Clarke, was given the task of reporting to the British government on whether any measures could be taken to restore peace and order in the peninsula and "especially to consider the advisability of appointing British officers to reside in the states" (Lim, 1977, p 8).

Although British intervention in the Malay peninsula was carried out on the pretext of the fear of intervention by other European powers in the area, it was clear that economic factors were important in the change of British policy in the Malay states (Lim, 1977, p 9). The settlement of disputes between rival Chinese factions and intervention in a succession dispute amongst the Malay chiefs of Perak paved the way for British control in the Malay peninsula. The Treaty of Pangkor, signed between the British and the Perak chiefs in January 1874, ended the succession dispute. The Sultan of Perak was compelled to accept a British officer, with the official title of British Resident, to administer the state. In August 1874 Clarke used a piracy incident off the coast of Selangor as an excuse to appoint a British officer in Selangor. Before the end of the year another British officer was appointed in Sungei Ujong. The confederation of Negri Sembilan was formed in 1895. In February 1888 a British Resident was appointed in Pahang.



In 1895 the four states of Perak, Selangor, Negri Sembilan and Pahang were brought into a union known as the Federated Malay States; and were placed under the centralised control of the Governor of the Straits Settlements. The other Malay states of Perlis, Kedah, Trengganu, Kelantan and Johor were known as the Unfederated Malay States (Andaya and Andaya, chapter 5). By 1914 each of these states had a British Adviser, acting the same capacity as the British Resident in the Federated Malay States. Although the Malay peninsula was divided into the Straits Settlements, the Federated Malay States and the Unfederated Malay States, British political control in the peninsula was complete. As for administrative organization, British Malaya had two forms of government. The crown colony of the Straits Settlements was under direct British administration, headed by a Governor who was also the High Commissioner of the Federated Malay States. The Federated Malay States and the Unfederated Malay States were ruled indirectly by British Residents/Advisors, who controlled all legislative and administrative matters and who was responsible to the Governor/High Commissioner. As result, powers of the feudal Malay rulers were greatly eroded by British intervention in the peninsula. But as Andaya and Andaya (1982, p 200) points out the creation of this political unit did not reflect any sense of common allegiance to any centre and the social and economic differences between the component parts were often extreme.

### COLONIAL ADMINISTRATIVE STYLE

In establishing their governance over the Malay states the British practised the method of indirect rule, a policy of "conciliation" with the Malay rulers and a policy of "minimum interference" with the Malay peasantry (Andaya and

Andaya, 1982, p 205). The traditional institutions, although not abolished, were not entirely incorporated into the colonial administrative system. Instead they were required to change and adapt to new demands, which were primarily to serve the purposes of the colonial political economy.

In each state the principal figure in the colonial administration was the Resident, who controlled all state matters. As part of the indirect rule strategy the traditional royal status and symbolic ritual and ceremonial functions of the Sultan and chiefs were left undisturbed. However they maintained minimal political authority, mainly relating to Malay social and religious matters. They lost their rights to levy taxes and tithes; in return they were awarded a fixed monthly income. Land taxes were paid directly to the colonial government.

According to Means (1976, p 42) British policy in the Malay states followed three principles: (1) the legal position of the Sultans was safeguarded; (2) the government was preserved as a distinctly Malay government; (3) the Malays were considered as the indigenous people, and the government accepted special responsibility for their welfare and the preservation of their rights as "subjects of the Sultan" in each state. As it were pro-Malay policies of the pre-war administration helped to preserve the traditional patterns of Malay society and its peasant-based economy. On this account Muzaffar (1979, p 51) argued that maintaining the Sultan-subject nexus was part of a colonial design which would provide legitimacy needed by British in formulating and implementing various policies, proclaimed in the name of the Sultan but designed to fulfil colonial aspirations. For example, in the Federated Malay States from 1874 onwards the issues of royal succession and the choice of ruler, which had till then been controlled under customary rules by the major chiefs and the royal family, were dominated by political interests of the British administration. Since advice given to the Sultans had to be acted upon, in reality the British had assured



almost complete control of the decision-making powers of government. In doing so they would have achieved the aim of controlling the economic development and exploitation of raw materials, particularly tin, and later, rubber.

The role of the Malays in the administration was minor one. The British established a State Council in each state, which was the chief executive body to provide the constitutional authority for the legislation enacted within the state. Composed of members of the Malay royalty and prominent Chinese leaders as well as British officials, each state council was no more than what Lim (1977, p 11) termed as a "deliberate organ concerned with petty affairs of state allotted to it by the Resident". It was mainly used by the British as a ploy which affixed the seal of approval on policies and legislation decided by the British, and therefore helped to maintain the fiction of Malay rule. In reality, executive authority relating to fundamental political matters and the maintenance of law and peace was in the domain of the Residents, reflecting the supremacy of British authority. Therefore from the beginning of the colonial era it appeared that they were the real rulers of the Malay states.

The British formed a Malay bureaucracy class, the Malay Administrative Service, to run the day-to-day administration in the Malay states. Recruited amongst the English-educated Malay aristocracy, these officials had no clear-cut authority. All important decisions were made by the colonial officers of the "Europeans only" Malayan Civil Service<sup>3</sup>. The bureaucratic structure therefore was headed by the colonialists, supported by the Malay Administrative

---

3. The colour bar in the Malayan Civil Service was not opposed by the Malay elite. In so far as entry into the Malay Civil Service by examination was concerned, the colour bar applied to Malays as well as other non-Europeans; but two or three Malays of aristocratic background had already entered the Malayan Civil Service without taking the examination (Butcher, 1979, pp 107-112).



Service. At the base of the bureaucratic structure were the general administrative staff and the constabulary service, who were recruited amongst Malays who have passed through the formal school system.

At the local level a new administrative structure, the district, was created and headed by a British District Officer. At the grass-roots level the colonial administration relied on the rural elite composed of local chiefs, the *penghulu* (head of *Mukim* or sub-district) and the *ketua kampong* (village headman). As the system of centralised administration reached out into the villages, the position of the rural elite was gradually transformed. Whereas in the traditional feudal system, the *penghulu* inherited his title - he was drawn from among the wealthier families and was related to most of the villagers; under colonial rule the post became that of a salaried officer. The same process was extended to the *ketua kampong*, who, although not a salaried official, received an honorarium. The outcome of this process was not only the recruitment of able officers, but also ensured the political loyalty of these minor officials. Good people sought these posts so as to enhance their status in the community.

In summary, the participation of Malays in the administrative bureaucracy was of "a subordinate nature, selected by the British rather than asserted by the Malays themselves as a matter of principle" (Lim, 1977, p 12). The British took advantage of the Malay political structure by integrating traditional leaders into the administrative system. Power was shifted away from the local level to the centre. Decisions on the distribution of resources at all levels was entirely a prerogative of the British.

## POST-WAR POLITICAL REFORM

During the Second World War, the Japanese invaded Malaya in 1941, and they occupied the country from February 1942 to September 1945. However, Japanese occupation in the peninsula did not alter the political structure of the Malay Sultans although unlike the British the Japanese showed less deference to the Sultans as did the British before them (Andaya and Andaya, 1982, p 248). When British administration was reinstated in 1945, they sought to change the political structure of the country (Andaya and Andaya, 1982, pp 253-57). They had rejected their pre-war policy of recognizing sovereignty of the Malay Sultans. The British proposed the formation of a unitary state, the Malayan Union, embracing the Federated Malay States, the Unfederated Malay States, Melaka and Penang. Singapore would remain outside the Malayan Union and retained its status as a crown colony. The feudal posts of Malay rulers were to be abolished. Liberal citizenship rights was also proposed. The Malayan Union citizenship was to be given to all without discrimination of race or creed. It would carry with it equality of rights including admission to the civil service. Citizenship would be granted to all who were born in the territory, and to immigrants who had been living there for ten out of the preceding fifteen years. Future immigrants could obtain citizenship only after five years' residence in the Union or Singapore.

The Malayan Union proposal provoked resentment and hostility of the Malays who feared that the proposed common citizenship and a unitary form of government together with the abolition of the Malay feudal structure would weaken their position as the indigenous people of the land. The opposition from various Malay organisations to the Malayan Union proposal led to the formation of the United Malay National Organization or UMNO, which



successfully held demonstrations and rallies as a show of Malay political strength.

The British eventually adhered to Malay demands. The outcome was the formation of the Federation of Malaya on 1 February, 1948. The Malay rulers retained the jurisdiction and power they had enjoyed before the Japanese occupation. The Federation comprised of the same territories as proposed for the Malaya Union. In addition the length of stay in Malaya, knowledge of the Malay language was a necessary requirement for immigrants to qualify as Malaya citizens. At the same time the newly-formed Malayan Communist Party, whose members were mainly Chinese, was outlawed, and a state of "emergency" was declared in the Federation and lasted until 1960.

In 1951 elections were introduced at the local government level, and the 1952 Kuala Lumpur Municipal elections saw the emergence of a coalition between the Malay (UMNO) and Chinese political interests - a rapprochement which would defend the status quo of the Malay bourgeoisie and the Chinese businessmen (Hua, 1983, p 102). This coalition became the basis of a model of ethnic party politics throughout Malaysia's future political development. At the same time Malayan politicians had begun the quest for political independence from Britain. In 1953 the communal coalition was completed when political interests of the three major ethnic groups Malay (UMNO), Chinese (Malayan Chinese Association or MCA) and Indian (Malayan Indian Congress or MIC) were formally constituted into the Alliance Party.

The weakened state of the British economy after the war combined with the fear of Malays joining forces with the communist insurgency were strong reasons for Britain's promise to grant independence to the Federation. As a move towards self-government, the first general elections were held in 1955.



The Alliance Party won 50 out of the 51 seats contested in the Federal Legislative Council. In 1956 the Malayan government and the British started negotiations for a new Federal Constitution. The Federation of Malaya gained its political independence on 31 August, 1957.

Thus far this chapter has traced the history of the assertion of British control in the Malay peninsula and the political formation of the Federation of Malaya. In the following section the discussion will focus on the development of the colonial export economy.

### COLONIAL ECONOMIC SCENARIO

Malaysia's current state of economic underdevelopment must be understood in the light of the country's historical role as a source of raw materials for the metropolitan economies. What ensued out of this role was the country's total dependence upon the development of the world economy.

In the following sections of this chapter the discussion will account for the beginnings of the incorporation of the Malaysian economy into the world capitalist economy. Within the international division of labour, colonial Malaya was a producer of primary materials. Malaya's economic growth was based on tin and rubber, two primary sectors which could hardly be said to possess any dynamics of their own, but could be seen merely as subsystems of the capitalist economy. Capital needed for economic investment in Malaya was provided by Western entrepreneurs.

## TIN MINING

Initial colonial economic development was closely connected with the exploitation of tin mineral resources. Although tin had been mined in the Malay peninsula since the ninth century, large scale mining began only after the discovery of the Larut tin fields in 1848, the consequence of which was the influx of Chinese miners. By 1870 some 40,000 miners were mining in the district. Concurrently tin was mined in Selangor, with some 7,000 Chinese miners working in the mines in and around Kuala Lumpur in 1874, and ten years later this figure rose to some 23,000 (Thoburn, 1977, p 58). From the mid-1800s tin-mining began in the Kinta valley around Ipoh, and by 1889 Kinta's output surpassed that of Larut and it became the centre of the tin industry, a position it holds to the present-day (ibid.).

Tin-mining began as an almost exclusive Chinese concern. Capital for the industry came initially from the Chinese merchant communities of the Straits Settlements (Wong, 1965, pp 60-64). A system of advanced credit facilities allowed the cost of fixed and working capital to be shared between a mine owner and a creditor. Fixed capital costs were low because little equipment was needed to operate the open-cast mines. In this form of mining the ore was extracted from the ground mainly by hand-labour, using only Chinese hoes to dig the ground, and twin baskets slung on each end of a pole to raise the ore from the pit. Treatment of the ore was in simple sluice boxes.

Working capital was kept down by the practice of delaying wages for a period of six months or even one year. Many workers worked on "tribute", a system whereby they in effect "lent" their labour to the mine owner for a share of the eventual profits of the mine. In the meantime workers received advances in the



form of food and opium. Profits of the mine were supplemented by other activities. For example, in return for a fixed cash payment mine owners could obtain rights to levy taxes on a particular commodity or activity, such as opium and gambling.

Chinese immigrant labour initially came to Malaya under an indenture system, whereby their passage was paid by prospective employers, with whom they had to work off their debt (Li, 1955, pp 85-86). The recruiter paid each man a travel fee of 32 Straits Dollars and charged the prospective employer between 35 to 45 Straits Dollars, the difference became the profit of the recruiter. Migrants were seldom given enough food, diseases were widespread and medical care was rare; many perished before they could get to their destinations. When the indenture system ceased to function, workers were drawn from immigrants who had paid for their passage, and were free to choose their employers. The indenture system was officially prohibited in 1914.

By the end of the 1890s the Chinese firms began to experience difficulties such as drainage problems (Wong, 1965, pp 216-21). At around the same time Europeans, who had been mining tin in Perak since the 1880s, began experimenting on other ways of extracting tin. First they introduced the method known as gravel-pumping, a method similar to the method of using high-pressure jets of water to mine china clay in Cornwall (Allen and Donnithorne, 1954, p 149). The tin-bearing ground is broken down by means of strong jets of water played against the walls of an open-pit. The liquid ore-bearing material, washed down by monitors, flows through crudely-cut channels to a hollow, then is elevated by means of a gravel-pump to the primary treatment plant, usually a sluice (Thoburn, 1977, p 84).



In 1912 the dredge was invented and from since then dredging became the basis of the growth and supremacy of Western mining firms (Thoburn, 1977, pp 82-83). A dredge is structure which floats on a pond or "paddock" largely of its own making, and is moved by means of lines fixed to the shore and fixed to winches on the dredge. A continuous line of steel buckets, at the front of the dredge digs the tin-bearing ground from the bottom. Grounds from the bucket are delivered to a primary treatment plant on the dredge where the ore is treated to about 15 percent purity, and the "tailings" or waste material is pumped over the back of the dredge. The ore is then taken from the dredge to a dressing shed on the shore where it undergoes treatment to a purity of about 75 percent before it is shipped to the smelting plants. The first dredges were steam-driven, using coal and firewood as fuel. Today most dredges are run by electric power.

Dredges require large capital outlays which the Chinese firms could not finance. The European dredging firms were established as joint-stock companies with capital raised from abroad. The dredge has comparative advantages over the gravel-pump. In 1937 the cost of tin extracted by dredging was a little more than half that of ore worked by gravel-pump method (Li, 1955, p 52). Moreover, a gravel-pump mine with a monthly yardage of 15-20,000 could employ about 30 men, while a dredge with a monthly yardage of 250,000 would employ over 100 men, therefore the yardage in the dredge is three times that of gravel-pump mines (Thoburn, 1977, pp 85-86). By the 1930s Western firms were producing half of Malaya's tin output (Gullick, 1958, p 42). As shown in Table 3.1, by 1935 dredging had become the leading method of tin-mining in the country.

Official policy and favouritism were additional causes of the decline in Chinese mines and the ascendancy of British and European capitalists against Chinese

Table 3.1

Production of Tin in Peninsular Malaysia by Mining Methods, 1930-74, Selected Years

	Dredg- ing	Gravel Pumping	Hydraul- icing	Open Cast	Under- ground	Misc	<i>Dulang</i> Washing (Panning)
1928	30	45	8	6	6	2	2
1930	38	43	7	4	5	1	1
1935	45	41	5	2	4	1	2
1939	48	36	6	4	4	-	2
1950	49	35	4	1	5	-	5
1955	51	39	2	2	4	-	2
1960	54	34	2	2	4	1	2
1965	39	48	-	3	3	2	3
1974	32	53	-	4	3	2	4

Source: Thorburn (1977), Table 5.1, p. 87.

miners. Li (1955, pp 50-52) argues that in a free competition the stronger capitalists had an advantage over the weaker ones, and that the capitalists of the ruling colonial power, supported by their government, could easily squeeze out of business their colonial subjects. In 1873 it was estimated some 40,000 Chinese miners were in the Larut district. With encouragement by the colonial administration, British capital began to be invested in the tin mines in the first decade of the present century, and gradually captured the tin enterprise. In 1910 the Chinese controlled more than three-quarters of the total tin output, but by 1937 they controlled less than one-third. British companies became financially stronger especially after 1912, and from the 1920s the Chinese became the marginal producers and usually worked on tin mines that had been exploited and abandoned by Western concerns. This in fact introduced a structural factor in terms of inequality and deprivation and in the relative wealth and wage system.

In the late nineteenth century and early twentieth century tin-mining dominated the economy of the Malay states and because it was especially successful, it contributed solidly to the development of the colonial economy. In 1874, of a world tin production of 36,400 tons, the Malay peninsula was estimated to contribute only 4,200 tons, but by 1895 the Federated Malay States alone contributed 49,592 tons out of a world production of 90,207 tons. Tin became an important source of revenue in these states. In 1895 in Perak tin duty receipts alone were worth more than 1.5 million Straits Dollars, and in the same year tin exports from the Federated Malay States were valued at 27,714,492 Straits Dollars or 89 percent of the total exports of the Federated Malay States (Lim, 1977 pp 13-14). By 1907 the value of tin ore exports from the Malay peninsula had increased tremendously to 78 million Straits Dollars out of total exports of 80.6 million Straits Dollars (Li, 1955, p 38).



Major urban centres, such as Ipoh, Kuala Lumpur and Seremban, originated as tin-mining centres. One significant contribution made by the British in socio-economic transformation of Malaya was the establishment of the infrastructure, especially a communications system. Tin revenues were used to construct railway lines<sup>4</sup> from these centres to the seaports, from where the tin ore could be shipped to Penang or Singapore for smelting before being exported. In 1885 an eight mile rail track was constructed between Taiping and Port Weld. Kuala Lumpur was connected to the port of Kelang in 1886, Seremban to Port Dickson in 1891, and Ipoh to Teluk Intan in 1895. By 1910 a line had been built from Prai in the north-west of the peninsula to Johor Bahru in the south, and extended over the causeway, across the Straits of Johor, to Singapore in 1923 (Thoburn, 1977, p 60).

The network of railway tracks laid to serve the colonial economic interests formed the basis of the west coast railway system of present-day Peninsula Malaysia. A direct road link between Johor Bahru and the Siamese border was completed in 1928. The construction of these forms of transportation system not only facilitated the growth of the tin industry but also opened up the country to further settlement and development and expansion of the colonial economy.

## RUBBER

The colonial administration realised that it would be risky for the Malayan economy to depend on tin only for its revenue, as depression in the world tin market would cripple the country's economy. Therefore the British envisaged that with large tracts of forest land the peninsula could be a source of tropical

---

4. The construction of railway lines in the Malay peninsula was facilitated by the availability of cheap immigrant labour from India.

agricultural products for European markets. Chai (1964, p 153) asserted that this was the prime objective for the introduction of rubber plantations in Malaya.

Towards the end of the nineteenth century the British had carried out experimental work on rubber in the Malay peninsula (Andaya and Andaya, 1982, pp 213-14). In 1877 rubber seeds were sent from the Kew Garden<sup>S</sup> in England and planted in the Singapore Botanical Garden and at the experimental garden in the compounds of the Residency in Kuala Kangsar, Perak. Experiments by H.N.Ridley, Director of the Singapore Botanical Garden from 1888, largely improved the cultivation of rubber, and in 1897 Ridley had invented the "herring-bone" method tapping method, which greatly facilitated the development of commercial growing.

The first commercial planting of rubber in the peninsula was introduced in 1896 (Allen and Donnithorne, 1954, p 110). In the 1890s the decline of coffee prices coincided with the continuous high rubber prices, and therefore provided the impetus for commercial cultivation of rubber on a plantation basis. Andaya and Andaya (1982, pp 211-212) argued that the colonial government's attitude towards the Chinese agricultural practices was instrumental in driving them away from their traditional crops of sugar cane, tapioca, pepper and gambier. Chinese farming methods were condemned because they led to soil exhaustion and a depletion of trees for use as firewood in numerous small factories. The colonial administration therefore considered Chinese plantations to be unfavourable to the larger interests of the colonial economy. While moving to suppress this type of agriculture the colonial authorities expressed their desire for land to be cultivated more permanently. Although Europeans had experimented in the cultivation of a number of crops such as sugar cane, coffee, nutmeg, cloves and pepper on a plantation basis,



only coffee and sugar cane had some degree of success. Rubber seemed to be the ideal crop to fulfil the administration's aim of long-term land use by Europeans, and rubber cultivation therefore became the agricultural alternative to tin-mining.

In 1897, as a device for encouraging capitalists to invest money in rubber, the colonial administration adopted a very liberal policy in granting land for rubber cultivation (Li, 1955, p 60). One thousand acres apiece were offered to planters who would permanently grow rubber. There was no limit to the amount of land that could be held for rubber cultivation. Furthermore, there was no land taxes levied on rubber land, but all rights to minerals underneath the land were vested in the state. This generous land-granting policy was rendered possible by the theory that the ownership of the land was vested in the state, and the Malay ruler of the state, through the British Resident (who was the *de facto* ruler of the state) could give land to whomever he pleased. The British capitalists were the major beneficiaries of this generous land policy. Peasants were denied such privileges. Between 1908 and 1912 the acreage of land alienated to rubber plantations in Malaya almost doubled from 762,408 to 1,498,282 acres (Lim, 1977, p 91).

Rubber cultivation required a period of about six years before returns could be obtained. As it were, rubber cultivation was certainly a high-cost activity. As an incentive to the industry, in 1904 the colonial administration set up a Planters' Loan Fund, through which large amounts of capital could be obtained cheaply. Lim (1977, p 96) mentioned that among some of the loans given out by the British administration were 30,250 Straits Dollars to Sungei Kapar Estate, 35,000 Straits Dollars to Uganda and Kent Estate, 36,000 Straits Dollars to Kuala Kangsar Plantations and 100,000 Straits Dollars to Cumberland and Company.



The problem of labour in the plantation sub-sector was alleviated by the large-scale immigration of Tamils from the south of India (Jackson, 1961, pp 96-108). In 1908 the colonial administration set up an Immigration Fund, funded by a levy on rubber producers, in order to finance the importation of labour from India. Facilities provided under this Fund included a subsidy to steamers shipping immigrants from India.

**Table 3.2**

Annual New Planting of Rubber in Malaya, 1898-1922  
('000 acres)

1899	2	1907	73	1915	122
1899	2	1908	85	1916	140
1900	2	1909	79	1917	228
1901	5	1910	207	1918	228
1902	4	1911	209	1919	175
1903	5	1912	192	1920	120
1904	8	1913	132	1921	59
1905	18	1914	94	1922	20
1906	51				
Total planted acreage		1900 : 6,000 acres 1922 : 2,260,000 acres			

Source: Thorburn (1977), Table 4.2, p. 63.

Table 3.2 shows that rubber acreage rose from 6,000 acres in 1900 to 2,226,000 acres in 1922. Rubber planting increased rapidly after 1905. The initial capital needed to finance the European rubber plantations came mainly from abroad. Drabble (1967, pp 5-6) mentions that large British merchant houses in Singapore like Guthries, Harrisons and Crossfield (agents of the East India Company since 1844) and Sime Darby acted as intermediaries between the industry and the overseas investors. The British had already accumulated large amounts of capital through their merchant ventures. Through the merchant houses of the nineteenth century funds could be channelled into the

Malayan rubber industry. What ensued was therefore the penetration of European capital and expertise into the Malayan economy.

The merchant houses also acted as "agency houses" who provided managerial, marketing and administrative services (Allen and Donnithorne, 1954, p 113). These agency houses became the driving force in the growth of the rubber industry in Malaya. Furthermore, they were in control of imports and exports through their monopoly of shipping, and with the inflow of investments from Britain they were also managers of London capital.

The reason for the rapid growth of the Malayan rubber industry was foreign demand. The only markets for Malayan rubber were in the Western economies. From 1900 the United States alone consumed 40 percent of the world's rubber output, while the United Kingdom and Germany together absorbed a further 35 percent; and that the growth of the automobile industry in the United States was central to this demand (Drabble, 1973, pp 29-30).

Thus the rubber plantation industry, like tin-mining, became a major historical form of the colonial mode of production, and was very much dependent upon the needs and demands of the metropolitan industries. Furthermore, the pattern of production that emerged reflected the interaction between international trade and foreign finance and the administration's policy in encouraging foreign investment activity in rubber plantation, - a pattern which has forged domestic production into its historical dependent mode of production.

By 1915 rubber had taken over tin as the major export of Malaya. In that year rubber exports amounted to 93 million Straits Dollars as compared to 61 million Straits Dollars for tin, in a total export value of 162 million Straits



Dollars<sup>5</sup> (Li, 1955, p 38). From then onwards the rubber industry was not only responsible for the growth of the Malayan economy but it was also the major mechanism of foreign penetration and control of the economy. Thoburn (1977, p 64) made assumptions that in the boom year of 1911 the proportion of national income represented by European rubber investment (excluding the value of rubber exports) was about 40 percent.

In 1921, the year of the first rubber census, European-owned rubber plantations accounted for half of the Malayan rubber acreage. Whereas 80 percent of the Asian acreage were in smallholdings of less than 100 acres, nearly 90 percent of the plantation acreage were owned by Europeans, although by 1932 figures indicated that 25 percent of the plantation acreage was in Asian hands (Thoburn, 1977, p 65).

In their enthusiasm to develop agriculture in the Malay states the colonial government pursued a dual policy. In the rubber industry, for example, two distinct types of planting enterprise evolved in the peninsula, differing in organizational form and factor mix. Firstly, there was the plantation form of cultivation, a corporate style enterprise built around the relatively intensive utilization of both capital and immigrant wage labour. The other form of rubber cultivation was the peasant smallholdings, of less than 100 acres in size, characterised by family enterprise and labour. The first rubber smallholding in the peninsula was started in 1887 (Ahmad, 1984, p 162). While it was true that European companies dominated the plantation sub-sector the contribution of the smallholding sub-sector should not be underestimated. Rudner (1970, p 76) cites that peasant smallholdings formed 40 percent of Malaya's rubber acreage

---

5. Due to data deficiencies, it is not possible to express these figures as percentages of the Gross National Product. Indeed, several years later, in a comment on figures on agricultural and mining output for the years 1929-32, Bauer (1948a, p 15) admitted that with data available at that time it was impossible to compile comprehensive figures on national incomes.



before the Second World War. Both these rubber sub-sectors still exist in present-day Malaysia.

The colonial administration's policy in the allocations of public resources such as land, permits and subsidies displayed a fundamental bias towards the plantation sub-sector. Political, rather than economic, intention was the basis for this bias in policy. The provision of land, infrastructure and credit services accorded advantages to the plantation sub-sector.

Lim (1977, pp 75-79) argues that when large-scale peasant smallholding cultivation started in 1909 the colonial administrators began to consider rubber as an unsuitable type of cultivation for the peasantry, and hence formidable barriers were introduced so as to prevent peasants from cultivating rubber. One policy that was devised to prevent the spread or even cripple peasant rubber cultivation was the considerable powers given to the administration in matters relating to land. In 1891 the first *mukim* (sub-district) registers were introduced, which contained columns describing the nature of cultivation, but there was no rigid control on the type of cultivation as long as they had economic value. When rubber cultivation became popular with the peasantry the administration replaced the causal interpretation of the cultivation condition with a more rigid one. In 1910 the administration began endorsing land applications with a "no rubber" condition. Also a higher land taxation was imposed on smallholding rubber land, while land used for coconut, rice or other type of peasant cultivation had a lower tax.

Such policies as mentioned in the preceding paragraph clearly demonstrate the colonial administration's deliberate discrimination against rubber cultivation on peasant smallholdings. Despite this colonial assault on the development of

peasant rubber cultivation, by 1912, this sector was already established and was set to be the dominant peasant economic activity.

### THE DISTORTION OF THE LOCAL ECONOMY

The Malayan economy was adversely affected by the colonial policies of export of raw materials. As from 1920 prices began to decline sharply and this was an indication of the end of the period of expansion in the economy. There had been a general rubber depression in 1920-1 (Andaya and Andaya, 1982, p 215). The year 1922 marked the end of a period of expansion, based first on tin and then rubber exports. For most of the inter-wars period the Malayan rubber industry was plagued by restrictive regulations. As prices and quantities demanded dropped, the British administration adapted its export strategy and internal resource allocations to cope with declining incomes. During this period several international commodity agreements were concluded through British initiative. The Stevenson Scheme was introduced in 1922 and lasted until 1928, and the International Rubber Restriction Scheme was implemented between 1934 to 1943. These restrictive regulations were introduced in order to control the production of natural rubber and therefore stabilise prices. Additionally in Malaya the alienation of land for new rubber plantations or smallholdings were prohibited.

It was clear that the rubber restriction schemes imposed during the inter-wars period was heavily weighted in favour of the plantation sub-sector and discriminated against the Malay smallholders. Rudner (1981, p 88) asserts that colonial administration tended to shift the burden of restrictions onto smallholder producers disproportionately. In the control of export quotas, favoured treatment were accorded to the plantation sub-sector while excessive



curbs were imposed on the output by the smallholding sub-sector. Worse yet, the prohibition of the alienation of land for rubber cultivation had particularly grievous consequences for the smallholding sub-sector who were denied entry into new rubber cultivation and kept back in alternative, comparatively disadvantaged agricultural cultivation. Meanwhile, the plantation sub-sector, with reserve land in stock, on which new rubber trees could be planted, were not badly affected by the land alienation prohibition. Although this ban was lifted in 1947, the colonial government continued to refuse to alienate land for rubber smallholdings, thus effectively restricting the participation of peasants in the rubber industry.

Bauer (1948b, pp 201-202) argues that the discriminatory practices in the rubber sector were deliberately implemented by the colonial administration, although the fact was that the smallholding was the lower-cost sub-sector in rubber cultivation. Bauer (ibid.) cites two prime weaknesses of the plantation production: the heavy overhead costs resulting from the maintenance of the elaborate hierarchy, and the reliance of a large number of hired labourers for the performance of essentially simple routine operations such as weeding. These heavy overhead costs were not offset by higher yields. In fact unrestricted annual average yields per mature acre on peasant smallholdings were 12 to 30 percent higher than on plantations. In addition, Tregonning (1964, p 204) points to the fact that in 1932 Malayan smallholdings produced good rubber at a cost of 5 cents (Straits currency) per pound, as compared to 12 cents (Straits currency) on larger plantations.

The depression period also caused restrictions of tin exports, initially by the Bandoeng Pool in 1921, of which Malaya and the Netherland East Indies were parties to the agreement which lasted until 1923. Several years later, following falls in the price of tin plate in the late 1920s, a voluntary Tin Producers'



Association was formed in 1929. This Association controlled 20 percent of the world's tin output, and output was to be restricted on a voluntary basis. The scheme, however, was failure, as stocks continued to accumulate and prices continued to decline (Yip, 1969, p 17).

Since the depression period world demand for tin has not expanded greatly. Between 1870 and 1900 world tin consumption trebled, between 1900 and 1930 it doubled, but between 1930 and 1960 it increased slightly (Lim, 1973, pp 7-8). The United States had been a major market for Malaya's tin, but since the 1920s its demand for tin remained constant at around 2540 tonnes (ibid.), perhaps due to the more economic use of tin and better recycling methods as well as the developing of other cheaper materials and the use of plastic for packaging.

The world depression of 1929-1933 severely effected the Malayan economy. Bauer (1948a, p 18) concludes that the period saw a sharp drop in the levels of consumption and general standard of living in the country. Between 1930 and mid-1932 daily wages of Indian plantation labourers fell by about 50 to 60 percent, while Chinese wages fell steeper. Earnings declined sharply as employment in the plantation was approximately halved between the middle of 1930 and mid-1932.

In the attempt to sum up the distribution of production and exports during the depression years the following illustration uses data drawn principally from the work of Bauer (1948a, pp 15-17). Net export figures for the period are available for the federated Malay States only but not for Malaya as a whole. Trends of net export and import figures for Malaya as a whole, however, did not differ greatly from that of the Federated Malay States.

The sharp fall in export values in the Federated Malay States, as shown in Table 3.3, was entirely due to the collapse of rubber and tin prices. In 1929 the gross value of agricultural output (excluding fisheries and forestry) was estimated at 430 plus or minus 20 million Straits Dollars, of which rubber accounted for 344 million Straits Dollars. In 1932 the corresponding gross value was estimated at 130 plus or minus 15 million Straits Dollars, including 66 million Straits Dollars for rubber. Gross value for mining output was approximately 138 million Straits Dollars for 1929, of which tin output amounted to 46 million Straits Dollars; and for 1932 gross value for mining output was approximately 122 million Straits Dollars, of which tin output amounted to 40 million Straits Dollars. Rubber and tin were the two major commodities in the Malayan economy and the collapse of these two commodities showed serious effects on the Malayan slump. This contributed to the relative impoverishment of the country because it had been in the interest of the colonial power to stress exports and to keep the prices of those exports low, partly by adopting policies which restricted market diversification and hence opportunity to avoid undue economic dependence on a few selected products.

**Table 3.3**  
Net Exports of Federated Malay States Produce, 1929-33  
(in Million Straits dollars)

	1929	1930	1931	1932	1933
Total	338	202	118	83	108
Rubber and latex	202	108	54	37	58
Tin and tin-ore	117	77	51	31	37

Source: Bauer (1948a), Table 1, p. 16.

During the same period net imports into the Federated Malay States declined

from 190 million Straits Dollars in 1929 to 63 million Straits Dollars in 1933. The Federated Malay States were dependent on imports not only for all manufactured goods, but also for practically most foodstuffs. Thus over a wide range, net imports would give a reliable indication of the level of consumption for the Federated Malay States and Malaya as a whole. Table 3.4 shows a severe reduction in consumption between 1929 to 1933, "affecting all classes and races, presents an instructive contrast with the experience of Britain, where real consumption was well maintained during the slump" (Bauer, 1948a, p 16).

Table 3.4

Sundry Net Imports into the Federated Malay States, 1929-32

	1929	1930	1931	1932
Tinned milk:				
'000 cases	467	449	342	215
Tea: '000 lb	4,408	3,801	2,969	1,852
Tobacco, cigars, cigarettes:				
'000 lb	10,718	8,657	6,417	3,278
Matches:				
ten millions	566	390	249	179
Beer and ale:				
'000 gallons	298	234	148	115
Cotton piece goods:				
'000 yards	30,012	24,969	19,843	18,107
Kerosene oil:				
'000 tons	31	21	16	14
Motor spirit:				
'000 tons	47	48	33	23
Cycles: numbers	6,065	1,990	709	249
Motor-cars: numbers	2,536	1,441	491	175

Source: Bauer (1948a), Table II, p.17.



In view of Malaya's dependence of exports on primary commodities, the fall in demand in the prices of tin and rubber led to a decline in its national income. This had adverse effects on the welfare of the general public. Since the economy was totally controlled by Western expatriates and profits were repatriated to Europe, the country did not have adequate national savings that could be utilised to maintain consumption levels that existed before the depression period. Subsequently Malaya was worse off than Britain during the slump of the 1930s.

### SOCIAL STRATIFICATION AND ECONOMIC UNDERDEVELOPMENT

The expansion of colonial capitalist economic activities brought about changes in the social formation of the Malay peninsula. Economic expansion relied on labour from outside the peninsula; the Malay peasants were not incorporated directly into the colonial economic system. The immigrants, the majority of whom came from the Malay Archipelago, China and India, transformed the entire demographic character of the peninsula.

In 1891 the population of the Federated Malay States was estimated at 418,527, which was a three-fold increase over the population estimates of the peninsula prior to British intervention (LIm, 1977, p 12). Table 3.5 shows that the proportion of non-Malay population in the Federated Malay States grew significantly from 1901. The Chinese who had dominated the population of the Straits Settlements for a considerable length of time had also, by 1911, outnumbered the indigenous population. What emerged out of the liberal colonial immigration policy was that by 1931 the non-indigenous population comprised 65.4 percent of the total population in the Federated Malay States, out of which the Chinese alone formed 63.6 percent.

**Table 3.5**

**Federated Malay States: Changing Racial Composition of  
Population (in Thousands), 1891-1931**

Race	1891	1901	1911	1921	1931
Malaysian	231.55	312.49	420.84	510.82	593.73
Chinese	163.43	299.74	433.24	494.55	711.54
Indian	20.15	58.21	173.71	305.22	380.00
Others	3.38	8.16	9.21	14.30	27.83
All Races	418.51	678.60	1,037.00	1,324.89	1,713.10

**Note:** The term 'Malaysian' is used to include all indigenous peoples of the Malay Peninsula and Archipelago.

**Source:** Lim (1977), Appendix 1.1, p. 245.

Colonial economic expansion had turned the Malay peninsula into a classic example of a plural society. Not only did the different ethnic groups occupied different spatial units but they were also engaged in different occupations. In general the Malay settlements were concentrated along the coast and lower riverine areas, while the non-Malays were concentrated in the western foothill regions and major ports of the west coast of the peninsula. Malays were engaged mainly in rice cultivation, while Chinese were engaged in tin-mining and the Indians were found mainly in European-owned rubber plantations.

The immigrant population were engaged in a wide variety of economic activities which were new to the peninsula. The predominant Malay subsistence agricultural economy was outstripped by mining, plantation and other commercial activities associated with a developing colonial capitalist economy. Whereas labour in the Malay subsistence economy was self-employed and unspecialized, in the colonial capitalist economy labour consisted of waged workers or immigrants employed for money wages. Colonial economic expansion facilitated the introduction of money as a medium of exchange. Wage labour therefore regulated the extraction of surplus value within the colonial capitalist economy.

The creation of the plantation working class is crucial to the understanding of the consequences of foreign penetration on the Malaysian social structure. The expansion of European rubber plantations brought large-scale immigration from India, mostly unskilled workers from South India, where widespread unemployment made it easy to find recruits. In 1908 Tamils from South India formed 43,515 out of a total 57,070 rubber plantation labourers. In 1918 their numbers had increased to 139,480, out of a total of 201,964 (Bach, 1976, p 470). The concentration of Indian workers on plantations isolated them in an institution noted for the total control of its inhabitants. The maintenance of



separate religion, language and customs impeded their assimilation into the rest of the Malaysian society. In addition to the unskilled plantation workers, there were other Indian immigrants from North India who came as merchants, money lenders and shopkeepers. Due to their wider participation in the economy, these merchants served as a link for services between the immigrant enclaves of the plantations and the rest of the economy.

Likewise, Chinese immigrant settlements demanded the services of Chinese merchants. These Chinese merchants formed an advantageous commercial class, and unlike the Indian commercial class, were able to adopt a financier role using the surplus generated from the Chinese capitalists' ventures in tin-mining and large-scale commerce. Furthermore, the Chinese immigrant class were not confined to the tin industry only. Economic expansion gave them opportunities to spread their activities in the economy. Due to their structural mobility the Chinese were not isolated in enclaves like the Tamil immigrants.

One other significant outcome of colonial economic expansion was the growth of urban enclaves and the creation of new urban centres serving the need of capitalist enterprises of tin and rubber. Whereas in the pre-colonial days royal towns were located at the *kuala* (river mouths), rapid economic growth necessitated the relocation of state capitals to major urban centres such as Seremban, Ipoh, and Kuala Lumpur. Besides, several small urban centres grew along the north-south railway line, of which the major ones like Tampin, Segamat, and Kajang were made district headquarters.

By the 1930s the social formation of the Malay peninsula had been fairly established. Colonial economic expansion had resulted in the emergence of a colonial entrepreneur class in the mining and plantation industries, the core of the Malay aristocracy in the civil service, a Malay peasantry, and an

immigrant Chinese and Indian wage-labour class. In addition colonial economic policies had resulted in the differentiation of the Malay peasantry. As land was turned into a commodity and due to its increasing value, a Malay rentier class emerged out of the Malay peasantry. Simultaneously, a Malay middle-class, composed mainly of bureaucrats in the Malay Administrative Service, was carefully nurtured by the colonial administration. The best of these officials were sent to Britain for further training. It was this class that conformed to Frank's (1967) "comprador elites" in the social structure, and later they were to form the basis of the independent Malayan government.

In summary, the discussion in the preceding paragraphs explains how economic developments in relation to immigration fostered the emerging social structure of inequality in the population, and created different strata experiencing particular disadvantages. In explaining the distribution or "structure" of poverty in Malaysia, this simultaneous evolution of economy and population has to be remembered and carefully monitored.

### LAND POLICIES, SUBSISTENCE AGRICULTURE AND POVERTY

Colonisation and the transformation of the economy along a capitalist path deliberately excluded the participation of the Malay population in the modern economic sector. Under the section entitled "Rubber" we have discussed several policy measures that were for the benefit of Western investors in the rubber plantation sub-sector, while the Malays peasants were deterred from cultivating rubber.

Colonial land policies were central to the underdevelopment of the Malay peasantry. The history of ownership and access to land underlies any account



of poverty in Malaysia. The colonial government took steps to repudiate Malay customary land rules and formulated a Western-type land tenure system (Andaya and Andaya, 1982, p 208). Land within easy access to the transportation system were reserved for capitalist commercial agriculture, while indigenous Malays were denied of such privileges. In 1880 the British introduced a new land tenure system, the Torren System, which was first devised in Australia,. This system was based on the principle of private property, whereby a title or certificate established an indisputable claim to land ownership, thus changing the condition of access and to land. The Malay peasants therefore were denied the right of cultivating land as they liked, land ownership based on customary practices was abolished. Thus the liberal and tolerant attitude of the Malays was exploited by the British colonial administration. Colonial policies persistently ignored the development of peasant agriculture in favour of European agricultural, mining and commercial enterprises.

At no time were the Malay peasants consulted on any policy measures that would affect their day-to-day life. These were some of the external factors that impinged upon the lives of the Malay peasantry. Despite the complexity of the colonial government's discriminating policies, the Malay peasants did not revolt against the colonial rulers. Instead, "what emerged most clearly was the readiness with which many Malayan peasants were able to adapt to change" (Lim, 1977, p 226). They were able to search for and engaged in the most rewarding type of economic activities, such as cultivating rubber on smallholding basis, despite obstacles enforced by the British administration:

Developments in the physical infrastructure such as the building of roads and railways and drainage works further supported the expansion of the capitalist system. State departments like the Department of Agriculture and the Rubber



Research Institute of Malaya were criticised as being biased towards the plantation sector. (Bauer, 1948b, pp 42-48). The Department of Agriculture, set up in 1905, was very active in promoting rubber cultivation in the plantation sub-sector, while discriminatory practices of the Rubber Research Institute were biased in advancing the interests of the plantations as opposed to smallholders.

Unlike the peasantry of other Southeast Asian countries which experienced colonial rule, the Malay peasantry was never critical to the maintenance of British colonial economy (Burns, n.d., pp 1-3). In Java, for example, the peasantry was required to devote a portion of its land to the cultivation of cash crops for the export market; while in Burma and the Philippines the peasantry were crucial to the commercialisation of the rice and sugar industries. In Malaya, on the other hand, the growth of the capitalist mode of production was not dependent primarily upon the surplus labour of the peasantry because labour for the mining and plantation industries were recruited from China and India.

When commercial agriculture was introduced in the Malay peninsula, the British introduced legislations that were meant to keep the Malay peasantry in subsistence economy, primarily rice-growing instead of switching to commercial agriculture particularly rubber cultivation (Lim, 1977, p 113). The Malay Reservation Enactment was passed by the Federal Council on 25 November, 1913, which empowered the British Resident to declare any land within the state as Malay Reservation and henceforth the land cannot be sold, leased or otherwise disposed to non-Malays. The legislation had been regarded by the colonial administration as the "culmination of its search for a means to protect Malays against themselves....preserving for them land which had been handed down from generation to generation" (Lim, 1977, p 113).

The colonial administration had alleged that a critical situation had existed as a result of the sale of traditional Malay land to non-Malays, and viewed this form economic of exchange as detrimental to the survival of the Malay culture and stability of their social organization. As it turned the fears of the colonial rulers were quite exaggerated. Lim (1977, pp 154-156) cites that between 1909 and 1910 in Selangor 1584 Malay holdings totalling 7564 acres were transferred by Malays to non-Malays, but no records of land transfer by non-Malays to Malays were available. In Perak in 1912 there were 961 sales of Malay land to non-Malays, while non-Malay sales to Malays in the same period amounted to 741, and in Negri Sembilan the number of land transfers from Malays to non-Malays were very small to cause any alarm to the state administration.

Within the Malay Reservation lands the Malays were induced to practise subsistence agriculture, mainly rice cultivation. To achieve this objective, a scale of rents favouring the cultivation of rice, coconut and food crops but discouraging rubber cultivation were set out. However, these inducements were not effective as many Malay peasants applied for land outside the designated Malay Reservation areas or violated cultivation conditions. Consequently the colonial administration was compelled to modify the policy and allowed rubber cultivation on a certain proportion of Malay Reservation land. Therefore what was intended to preserve Malay ownership of land by restricting disposal rights also embodied an ulterior motive in restricting cultivation rights.

However, the colonial administration did not cease to find ways to block the participation of the Malay peasants in rubber cultivation. Rice cultivation, often closely associated with traditional Malay village culture, was viewed as



the ascribed crop for Malay peasants<sup>6</sup>. The government's strong disapproval of peasant rubber cultivation was due to the increased concern for rice and food crop production to feed British Malaya's growing population (Andaya and Andaya, 1982, p 218). In 1917 the Rice Lands Enactment was passed in the Federal Council. Under this Enactment any rice land owner could be penalised in cases of violation of cultivation conditions.

The Rice Lands Enactment of 1917 was part of the government's campaign to boost local food production, as a result of increased consciousness of the dangers in the country's dependence on imported food (Lim, 1977, pp 120-121). The Federated Malay States imported an average of 190,000 tons of rice annually or 82 percent of its annual rice consumption. Several other legislations pertaining to local food production were introduced by the colonial government. In 1917 the Coconut Palms Protection Enactment was passed by the Federal Council, under which the destruction of coconut palms for the purpose of cultivating other crops became a punishable offence. In the same year the Silt Control Enactment was introduced in order to maintain the water supply to rice fields. In December 1918 the Food Production Enactment was passed, which reserved for the government extensive powers to increase food production should the need arise. The main feature of this Enactment was the appointment of a Food Controller, with powers to regulate the cultivation of rice and other food crops, to compel cultivation on any land which appeared to be suitable and appropriate labour for the purpose of cultivation.

---

6. Rudner (1970, p 79) mentioned that in recommending double cropping as the most promising means of increasing rice output, the Report of the Rice Production Committee of 1953, was even prepared to compel those Malays who had already responded to the attractions of rubber smallholdings to return to rice cultivation.



According to Lim (1977, p 130) the problem of local food production was especially critical between 1918 and 1921, when rice imports into Malaya were severely curtailed due a reduction of normal allowance of rice exports from Burma and poor rice harvests in India; while the local food production campaign, on the whole, was a failure. The government's attempt to force upon the peasants the task of remedying a difficult situation resulted in the evasion of responsibilities by other sectors of the population. The government's decision to use the country's public revenues to finance rice subsidies chiefly benefited the employers of the mining and plantation sectors, because despite increased rice prices the subsidies made it possible for employers to overlook wage increases for their workers. Furthermore, although the government resorted to compulsory measures and subtle coercions as the chief means of increasing local food production in the critical years of reduced food imports, there was hardly any attempt to implement a long-term programme of agricultural and technical assistance. For instance, the colonial government made no attempts to provide rural credit at reasonable rates for the rice farmers, whereas credit facilities were readily available for the European extractive industries (Andaya and Andaya, 1982, p 218). It was colonial attitudes towards the Malay farmers which caused the failure in sustaining improvements in local food production.

### FINANCIAL CREDIT AND POVERTY

Although Malay peasant surpluses were not critical to the colonial economy, nevertheless, the peasants were affected by market forces and increasingly were drawn into the market economy. For instance, the introduction of the new land tenure system in 1880, based on the system of private ownership,

transformed land into an economic as well as a social commodity, and resulted in a process of land accumulation and exploitation within the Malay peasantry<sup>7</sup> (Shamsul, 1979a, pp 442-443). People in the salaried groups, like teachers and government officials, often purchased land when the opportunity arose, especially land gazetted as Malay Reservation, which until today has cheaper values, because ownership of this type of land can be held by Malays only.

Moreover, with the introduction of money economy the need for credit became a pressing problem for the Malay peasantry, whose traditional economy was non-monetized, and thus, unlike the Chinese merchant class, within the Malay peasantry there was no accumulation of capital. Due to the colonial government's failure to provide for the peasants' need for credit assistance, many Malays turned to *chettians*<sup>8</sup>. These *chettians*, who banked money on call at 10 percent interest, gave loans to the peasants at up to 36 percent or more interest per annum, so much so, in 1911 in Krian only, it was estimated that chetty loans to the peasants amounted to 400,000 Straits Dollars (Lim, 1977, p 84).

Additionally, credit at high interest rates were (and still are) provided by the village shopkeeper, middlemen and wholesalers (Shamsul, 1979a, pp 442-43). A chain of wholesalers and retailers emerged out of the expansion of money economy and the consumer market, a majority of them settled in rural townships and villages. This strict control of financial credit has been another important feature in intensifying inequality and therefore vulnerability to poverty. Money is advanced usually during the planting seasons and

---

7. For detailed studies on this subject refer to S.Husin Ali (1964), *Social Stratification in Kampung Bagan*, Singapore, Malaysian Branch of the Royal Asiatic Society.

8. *Chettians* were an infamous group of professional money-lenders who originated from Northern India, and had followed the British colonial expansion into Burma, Ceylon, Hong Kong and Malaya.



repayments are made after the harvest. Often the peasant would use whatever land he had as security for a loan. The increasing indebtedness of the peasants led to the accumulation and concentration of land and wealth by creditors who then assumed the additional role of landlord.

What transpired out of this process was a class of landlords and absentee landlords in the Malay peasantry. The transfers of land ownership in the Malay peasantry also resulted in land fragmentation which signified a process of social differentiation and polarization. Thus to this day the Malay peasantry is divided into a land-owning group who own holdings of more than 10 acres in size, and another group who own smaller holdings, and yet another larger group of about 60 percent of the peasantry who are landless (Shamsul, 1979a, p 443). Subsequently, the majority of the Malay peasantry in the rubber and rice sectors are either owners of small land holdings or landless. The Malay peasantry can be classified into four categories: 1) owner-operator, 2) owner-tenant-operator, 3) tenant, or 4) tenant-labourer (ibid.). Those who do not own land are exploited by landlords who charge exorbitant rents. For instance, Bach (1976, p 473) asserted that rice farmers are worse off as tenants, as they have to pay between one-third to one-half of their harvest to the landlord. In this way the relations between landowner and tenant are characterised by social inequality and dependence<sup>9</sup>.

In these paragraphs an attempt <sup>has</sup> been made to show how colonial policies relating to land and crop cultivation had reinforced the structure of inequality in the population, by inducing the Malays to remain in subsistence agriculture and by restricting their entry into commercial crop cultivation. The absence of

---

9. It is interesting to note that in the north of Yemen, sharecroppers are not necessarily considered socially or economically inferior to landowners, but rather are seen as partners (Weir, 1985, p 18).

formal credit facilities for the Malay peasantry was another feature which intensified inequality and hence poverty within the Malay peasantry.

### **ECONOMIC EXPANSION AND THE COMMON WEAL**

In what ways did the different ethnic communities gain from the phenomenal prosperity of British Malaya? On the whole under colonial rule the economic and social development of the Malay peasants was not a matter of prime importance. What was more important to the colonial administrators was to ensure the profitability of European economic conglomerates that were operating in the peninsula.

The Chinese were self-reliant and economically aggressive and therefore were able to create a "colony within a colony" for themselves, whether the British administrators looked to their welfare or not. They provided capital, supplied both skilled and semi-skilled labour for all the secondary industries and businesses. The expansion of the economy also produced avenues of employment; while Europeans filled the higher ranks, the lower positions were taken up by the Chinese and also the Indians.

In contrast, the Malays were slow to respond to the new economic demands, largely because the British administrators grossly underestimated the ability of the Malays to benefit from a secular education system. Swettenham, the British Resident General of the Malay peninsula at the turn of the nineteenth century,



believed that "education in English would unfit them for normal labour and give them notions above their stations" (quoted in Chai, 1964, p 286). Hence the colonial administration set up a vernacular education policy which provided the Malays with four (later increased to five) years of schooling, which implicitly was intended to preserve the traditional Malay way of life.

The Chinese and the Indians in the urban areas were able to benefit from English-medium education, usually provided by the Christian missionaries. The Malay aristocracy class too were able to receive English-medium education so as to facilitate their entry into the civil service. As a consequence, while the Malay aristocracy class was given the opportunity to co-exist with the British colonial class, the vast majority of the Malays, who were peasants, hardly had any major share in the enormous wealth generated by the colonial economic expansion programmes.

During the colonial rule the welfare of the local population was not considered a direct responsibility of the government. Colonial budget and expenditure policies on social welfare and the extensions of communications were designed primarily for the promotion of the export-sector enclave and the urban tax-paying classes. Instead, one of the largest items of expenditure in British Malayan budgets was for the personal emoluments, pensions and allowances of civil servants, who were British and European expatriates. According to Emerson (1937, p 90) salaries and benefits for the expatriate personnel represented a substantial volume of invisible imports into the Federated Malay States that supplemented capital outflows during the inter-wars years, rising from 8 million Straits Dollars in 1916 to 22 million Straits Dollars in 1932.

The colonial passion for budget surpluses and reserves, pursued at the expense of the economic and social well-being of the local population resulted in a situation where:

"The Malays remain much as they were in earlier days although their land is more limited and their dependence on the world economy greater. Among the Chinese there are a few who have grown wealthy, as have the Malay rulers and the aristocracy, but the bulk of the wealth had been drained away to Singapore and further afield to Europe, America and China".

[Emerson, 1937, p 220]

The discussion in the above paragraphs clearly show that the benefits of colonial economic expansion did not "trickle-down" to the vast majority of the population. To the colonial government the welfare of the population was not a matter of priority compared to the well-being of European expatriates.

## SUMMARY AND CONCLUDING REMARKS

Our historical construction of the colonial era in Malaya so far has traced the political formation of British Malaya and the incorporation of the colony into the world economy. Malaysia's integration into the world capitalist economy as a producer of primary commodities for export came initially with the discovery of large deposits of tin ore in 1848. Then at the turn of the century, the discovery of rubber served to fuel Malaysia's accumulation process, geared to the international division of labour. The rubber industry became the major mechanism of foreign penetration and control of the economy. Rubber was considered as an unsuitable type of agricultural cultivation for the Malay peasantry, hence formidable barriers, such as discriminatory land policies, were introduced by the colonial government. Thus colonial policies allowed



the formation of an independent peasant sector, and at the same time greatly assisted in the expansion of large plantations and tin mines owned by Europeans, and facilitated the subsequent emergence of a dependent immigrant labour force.

In a nutshell, Malaysia had become a perfect example of a peripheral economy that exemplified the four forms of dependency distinguished by Szentes (1973), which we have discussed at some length in chapter Two. British Malaya had established direct economic dependence with the centre economies of the Western world, and economic enterprises in the tin and rubber industries were mainly owned by Europeans. Because her primary commodities were exported to the West, Malaya's trade depended heavily on demands by industries in the West. Capital for economic expansion was funded mainly by investors from Europe, therefore the country was financially dependent on foreign capital. And dependence on credit was also carried down to the most local level by the presence of *chettiar* money-lenders. Lastly, technology needed for innovations in the economic expansion was not developed locally but had to be imported from the West. This was a structure both of national dependence and of internal graduated social dependence.

Incomes accrued from the export of tin and rubber were considerably voluminous. Still, profits gained from colonial economic activities were repatriated elsewhere, especially to Europe, at the expense of the local population. On its own showing the colonial administration neither explored, nor made provisions for, the social health of the local population. Social policies pertaining to health care, education and welfare of the population were limited to the urban centres and were generally geared to serve the colonial enclave rather than the population at large. Social security measures for workers were virtually non-existent. Thus economic growth was not

complemented by developments in the area of social policies. Whatever may be argued for the socially "benevolent" rule of the colonial administration by some interpreters, the evidence produced by any detailed scrutiny of development demonstrates little concern for social needs and social welfare.

The liberal colonial immigration policy of importing labour from China and India led to the formation of a multi-ethnic social structure in the Malayan, and later Malaysian, society. The stratification of ethnic groups according to occupations and spatial distribution became a trade mark of the Malayan plural society. These multi-ethnic differentiations later formed the basis of political tensions in independent Malaysia. But, as the above discussion shows, many of the differences in power and economic opportunities had been produced in the course of making policy provisions about land, subsistence agriculture, rubber cultivation and credit during colonial rule and continuing into the early years of post-colonial economic development.

At the eve of Malaya's political independence Malaya had been transformed from an economy based chiefly on a subsistence agriculture and regional trade into an export economy based principally on the primary commodities of tin and rubber, a transformation which ascertained the country's position as a peripheral economy within the global economic order. This is simultaneously an account of the creation of dependency and social stratification, posing problems for the management of welfare in a modern national state.

In the following chapters of this thesis, it will be argued that political independence produced neither a restructuring in the economy nor a reconfiguration of the social stratification, rather it reinforced Malaysia's position as a neo-colonial state.



## Chapter Four

### DEVELOPMENT POLICIES, 1957-1970

#### INTRODUCTION

An analysis of any social security system would necessitate an appreciation of the economic and social development of the society in question. As the crucial question in the study of social security relates to financial support, like problems of economic hardship and income maintenance, therefore the nature and scope of a social security system depends not only upon the state of development of the society, but also on its historical social formation and priority accorded to social development and social services.

As follows, in this chapter the objective is to analyse some of the salient features of post-independent development in Peninsula Malaysia up to the year 1970. The analysis begins with a brief description of Malaysia's plural society and the political structure <sup>that</sup> ~~the~~ has emerged out of this plural society. The main part of the chapter focuses on the economic structure and major indicators of macro-economic development in the period between 1957 to 1970. Following this, based on the data pertaining to income distribution the analysis will attempt to assess the impact of economic development on the population and discuss to what extent poverty and inequality exist in the society.

**ETHNICITY AND COMMUNALISM**

As explained earlier in chapter Three the liberal immigration policies of the colonial administration had led to the rapid growth of the Chinese and Indian population in Malaya. The three major ethnic groups, Malays, Chinese and Indians were separated from each other by language, religion, dietary habits, geographical distribution and economic activities. By 1957 the patterns of ethnic distribution in the Malaysian society had already been established; and as shown in Table 4.1, to this day these patterns have not altered much. Malays form just over half of the total population, while the Chinese form roughly one-third and the Indians one-tenth.

**Table 4.1**  
**Peninsula Malaysia: Population Estimates by Ethnic Groups**  
**(in percentages)**

	1957	1970	1985
Malay	49.8	52.7	56.5
Chinese	37.2	35.8	32.8
Indian	11.2	10.7	10.1
Others	1.8	0.8	0.6
Total Population ('000)	6,800	10,434	12,968.8

- Sources:
- i) Department of Statistics; 1957 Population Census of the Federation of Malaya, Report No. 14, Table 1.3, p. 3;
  - ii) Fourth Malaysian Plan, Table 4-2, p. 74;
  - iii) Fifth Malaysian Plan, Table 4-1, p. 129; [adapted].



The Malays had little contact with the export sector of tin and rubber and the new commercial activities in the urban sector. The British made no effort in recruiting the Malays into the tin and rubber industries. It was colonial policy to keep them in rice cultivation and subsistence agriculture, while those who were in rubber cultivation were mainly smallholders with holdings averaging three acres each (Lim, 1967, p 114).

The colonial policy of not granting the Malays access to English-medium schools for the fear of the disruptive political consequences further kept the Malays from the modern economic sector (Chai, 1964, p 268; Snodgrass, 1980, p 237). While English education was regarded as an instrument of change, the two diverging Malay vernacular and English educational systems produced two distinct classes each culturally separated from each other - one remained in rural poverty while the other became urbanized and relatively well-off by material standards. Above all, a wide language gulf separated the two classes, and it is within this context that charges against the British for planning to divide and rule gain their strongest support (Chai, 1964, p 280).

The immigrant Chinese and Indian communities, meanwhile, maintained strong ethnic connections with the different provinces in China and India where they originally came from. This fact strongly influenced the patterns of their locations and occupations in the country. Tables 4.2 and 4.3, for example, give some ideas of the ethnic concentrations in the primary commodities sectors of tin and rubber. The Chinese were concentrated in tin-mining, and also in commerce and industries. They took advantage of the Christian-missionary sponsored English secondary level education, which enabled them to have a high rate of social mobility in the urban areas. On the other hand, the majority of the Indians, who came from South India as

indentured or common labourers, worked on European-owned rubber plantations, while other Indians found jobs in certain sectors of the public works, telecommunications and railway departments, perhaps due to their competency in the English language and their familiarity with the system of British rule.

**Table 4.2**

Ethnic Composition of Mining Labour Force,  
Peninsular Malaysia, 1972  
(in percentages)

	Malay	Chinese	Indian	Other
Dredging	40	34	24	1
Gravel Pumping	12	82	5	-
Underground	30	68	1	-
Open Cast	35	51	13	1
All Mining	21	69	9	1

Sources: Thoburn (1977); Table 5.4, p. 92

**Table 4.3**

Rubber Estate Labour Force in Peninsular Malaysia,  
By Ethnic Group, 1938-72  
(as Percentages of Total Labour Force)

	1938	1947	1957	1968	1972
Malays	2	20	19	23	33
Indians	80	52	51	46	40
Chinese	17	27	29	31	26

Source: Thoburn (1977); Table 6.6, p. 135



## POLITICAL COMMUNALISM

The Malays were the first ethnic group to form a political party, the United Malay National Organisation (UMNO) in response to the formation of the Malayan Union in April 1946<sup>1</sup> Andaya and Andaya, p 256). Since the Malays and UMNO did not challenge continued British rule, and therefore British economic, political and military interests were thereby assured, the British subsequently endorsed the formation of the Federation of Malaya in 1948.

Proposals for the formation of the Federation of Malaya, drawn up in July 1946, were negotiated in secret between the British, the Malay rulers and UMNO, while excluding other political forces in Malaya from the negotiations. Hua (1983, p 81) asserts these secret negotiations clearly revealed the communalist strategy of British imperialism, whose intention was not only to isolate the radical national forces, but also to exclude from the proceedings the commercial and petty bourgeoisie in the non-Malay communities.

Following the formation of the Federation of Malaya, the quest for independence grew and other political parties came into prominence. The Indian commercial bourgeoisie formed the Malayan Indian Congress (MIC) in August 1946, while the Malayan Chinese Association (MCA), sponsored by Chinese businessmen, was formed in February 1949. Considering that the condition for independence set by the British was the ability to foster and maintain communal stability, the three communal political parties accordingly

---

1. In Chapter Three it was pointed out that UMNO opposed to the creation of the Malayan Union as it meant a loss of sovereignty over the Malay states by the hereditary Sultans, as well as a loss of identity by individual states, and the liberal terms of offer of citizenship to the non-Malays.

joined together to form the imperialist-groomed Alliance<sup>2</sup>, and subsequently won 51 out of the 52 legislative council seats in the first federal elections in 1955 (Hua, 1983, pp 99; 105; Andaya and Andaya, 1982, p 261).

Although problems of sharing political and economic power between the three communal parties in the Alliance were inevitable, the colonial government viewed this co-operation as step towards the formation of a united Malayan nation (Andaya and Andaya, 1982, p 261). Besides the Alliance seemed a useful device for the upper strata of the non-Malay compradors to command their linkages in the imperialist domination of the Malayan economy. A noteworthy feature of the Alliance is that from its inception UMNO was and still is the dominant partner, justified by the special position of the Malay rulers in the colonial construct and the predominance of Malays in the electorate. Rudner (1975, p 11) points out that in essence the Alliance electoral coalition was based on intercommunal compromise and reconciliations worked out by the UMNO gentry and MCA comprador elites, ensuring trade-offs that satisfied the minimum expectations of each of the ethnic partners.

When the country gained its political independence in August 1957, Alliance leaders clearly recognised the paradoxical position occupied by the Malays. Since Malay voters outnumbered all the others, this ensured UMNO's decisive political edge over its two other political partners. However, while the Malays were the politically dominant group in the country, they were also the most economically backward. Therefore there was the serious need for greater Malay participation in the economy while at the same time not depriving the non-Malays of their economic activities. Subsequently the non-Malays would

---

2. The Alliance formula was first adopted by UMNO and MCA in the Kuala Lumpur Municipal elections of February 1952, in which the Alliance won 12 out of the 14 seats contested.



have to accept the Malay language as the national language, the special Malay privileges such as those pertaining to quotas in higher education and employment, and wider Malay economic participation in exchange for citizenship and the right to participate in the political process. The *Merdeka* (Independent) Constitution of 1957, therefore, reinforce the supremacy of the Malays while at the same time it safeguarded the interests of the other ethnic groups, and in this process, effectively institutionalized communalism as the state ideology.

### COLONIAL ECONOMIC LEGACY

At independence in August 1957 the basic characteristics of the economy differed little or not at all from what it had been as a colony. One of the inherited features of the economy was a basically enclave character of imperialist domination in the economy. Moreover, the capitalistic economic policies of the colonial administration resulted in the country specializing in the production of rubber and tin for export, and surpluses were repatriated to the West, while at the same time the country depended heavily on the import of essential foods and manufactured goods. Due to the economy's dependence on the performance of the export sector, Malaysia is classified as an export economy (1MP, p 20). Table 4.4 shows that in 1960 gross export proceeds accounted for about 55 percent of the GDP. In the same year rubber and tin formed 83 percent of the total value of \$3032 million of merchandise exports (1MP, Table 2-2, p 23), thus reflecting a heavy dependence on these two export commodities.

**Table 4.4**

Exports and Production for Domestic Use, 1960  
(\$ million, 1960 prices)

	1960
GDP in market price	\$6918
Exports of goods and non-factor services	\$3824
Exports as % of GDP	55
GDP for domestic use	3094
Domestic use as % of GDP	45

Source: First Malaysian Plan, Table 2-3, p. 24 (adapted).

Since British colonial administration policies and investments in Malaya were geared exclusively towards the extraction of resources to meet the demands of Britain and other centre economies, Malaya had developed one of the most open economies in the world and the country became largely dependent on world trade conditions.

As an illustration, during periods of economic boom, such as in the years of 1950-51, 1955-56 and 1959-60, Malaya's GDP rose to successively higher levels. Nevertheless the inherently cyclical nature of a dependent economy meant inevitable fluctuations in the country's real GDP between peaks and slumps. The annual rate of growth of the GDP varied from 61 percent in 1950 to -17 percent in 1953 but averaged at 19 percent per annum during 1948 to 1960. In comparison the annual rate of growth of the GDP for the United Kingdom in the same period was 9 percent. Also, the average Gross Exports



Proceeds/Gross Domestic Product (GEP/GDP) ratio was high, for the period 1947 to 1960 the ratio was 47.7 percent or nearly half the average GDP<sup>3</sup> (Lim, 1967, pp 8; 13). Moreover, Malaya was highly dependent on the import of foodstuffs, fuel and manufactured goods. In 1961, for instance, foodstuffs and petroleum only accounted to about 47 percent of the total imports (Lim, 1967, p 8). On the whole the growth rate for the economy for the period 1947 to 1960 was 4.5 percent per annum (Lim, 1967, p 11). Still, fluctuations in the GDP accentuated the vulnerability and insecurity of an economy which is dependent primarily on fluctuating export proceeds, this fact has serious implications for the state's ability to provide adequate resource allocations towards a comprehensive social security protection for the population.

Independent Malaya inherited not only a highly export-oriented economy, but also one which was dualistic in nature. The low-productivity traditional sector of rubber smallholding, padi cultivation and fishing, dominated by the Malays, exists along side the large-scale capital-intensive modern sector, dominated by foreign and non-Malay interests. Political independence did not abrogate direct economic dependence on the centre states. Foreign domination of the rubber and tin industries, for example, are illustrated in Tables 4.5 and 4.6. More than 60 percent of the total rubber acreage belonged to European holdings; while foreign-controlled tin-mines produced almost 60 percent of the total tin output. In the 1960s most of the output of the tin industry was controlled by three British holding companies, namely, London Tin Corporation, General Tin Investment and British Tin Industry (HUA, 1983, p 112).

---

3. Comparative GEP/GDP ratios during same period for selected countries were as follows: United States 3.9 percent; United Kingdom 16 percent; Burma 26 percent; Thailand 13 percent; India 5 percent (Lim, 1967, p 13).

**Table 4.5**

Ownership of Malayan Rubber Estates, by Nationality,  
1960

Size	European		Asian	
	No.	Acreage	No.	Acreage
Below 1000 acres	110	63357	1629	425470
Over 1000 acres	382	1107474	153	345871
Total	492	1170831	1782	771341

Source: Ooi (1961) p. 214

**Table 4.6**

Tin Production in Malaya, by foreign-controlled and  
locally-controlled mines, 1963

	Output	
	Tons	Percentage
Foreign-controlled mines	35,860	59.8
Locally-controlled mines	24,090	40.2
Total	59,950	100.0

Source: Yip (1969), Table 0-6, p. 19



Unlike other foreign colonies such as Indonesia, India, Pakistan and many African countries, Malaysia did not embark on radical policy changes upon gaining independence. Instead the country continued to maintain the inherited economic structures. There were neither threat of nationalising foreign-owned enterprises nor experiments in egalitarian economic and social policies.

The state itself recognises that the economic structure could be divided between the traditional and modern sectors, consisting of five segments, which clearly illustrate existing economic imbalances. These segments are:

- "i) The Traditional Rural Sector which comprises uneconomic smallholder rubber, single-cropped padi, traditional livestock and other agriculture, gathering of jungle produce, inshore fishing, and *dulang* washing and small gravel-pump mining for tin.
- ii) The Modern Rural Sector which comprises estate agriculture (i.e. rubber, oil palm, coconut, tea and cocoa), Felda schemes and double-cropped padi, commercial forestry, modern fishing and modern tin-mining.
- iii) The Traditional Urban Sector which comprises those parts of manufacturing, construction, commerce, transport and services, in which work is done with little benefit from modern equipment or techniques; hawkers, stallholders, household servants, trishaw riders, and other persons pursuing a multitude of activities requiring little or no initial skill or training.
- iv) The Modern Urban Sector which comprises technically advanced manufacturing; construction, commerce, utilities, transport, communications and modern services including the professions and the tourist trade.
- v) The Government Sector which comprises Federal, State and Local Government administration and Public Authorities as well as the Police and the Armed Forces."

[2MP, 1971, pp 36-37]

Thus as far as social security is concerned, the above classification of the economy into several different sectors would eventually raise problems of devising income protection schemes for the population. Since the economy is conspicuously diversified there appears to be no common basis for a unified social security programme. Moreover, there is an apparent element of

contending societal interests between the different classifications of workers in the economic structure. Therefore without any strong commitment for egalitarian social policies on the part of the state, comprehensive social protection for all workers may not be accomplished easily.

In summary, at the time of political independence, Peninsula Malaysia was marked by a high degree of economic dualism and differentiation of spheres in its social formation. The majority of the Malays lived in rural areas and engaged themselves in the traditional rural sector, working in smallholding agriculture and fishing, and therefore earned low incomes. Urban Malays worked in the government sector and the lower rungs of the manufacturing and services industries. The majority of the Chinese lived in urban areas, working in trade and commerce, while rural Chinese were engaged in tin-mining and smallholding agriculture. Meanwhile, the majority of the Indians lived in the rubber or oil-palm plantations, while those in the urban areas were mainly in the professions and government services.

Economic differentiations resulted in income differentials between the different ethnic groups. In 1957 the average income of the adult Malay male was \$1463, compared with \$3223 for a Chinese and \$2031 for an Indian (Silcock, 1963, p 279). This clearly showed that the Malays were economically backward compared to the immigrant Chinese and Indian communities.

On the other hand, politically the Malays continue to enjoy a superior position because of their historical claim as the indigenous people of the peninsula. The Chinese, having taken full advantage of the growth opportunities particularly in trade and commerce, continue to be economically superior compared with Malays and Indians.



At the same time, in the government sector the state had inherited a "distinctively intense form of civil administration" (Rudner, 1975, p 18). The comprador elites in the state bureaucracy did not make any attempt to reform the civil service; colonial officials continued to assert predominance in the bureaucracy. Rudner (1975, p 19) points out that the Malayan government even concluded an agreement with the United Kingdom, providing for even more attractive terms for British officers who continued to serve in the Malayan civil service. As shown in Table 4.7, Malayanization of the bureaucratic elite was adopted on a gradual basis, reflecting the state's continued cultural dependence on the former colonialists. This tended to perpetuate many of the problems of dependence and poverty, while introducing some measures of stability.

### ECONOMIC DEVELOPMENT 1957-70

During the decade or so following independence Malaysia followed a medium-term growth rate in order to establish its credibility particularly with the rural electorate<sup>4</sup> (2MP, p 52). Public development efforts were directed primarily at raising income and productivity and improving social and living conditions in the urban, and, in particular, the rural agricultural sectors (2MP, p 10). This concern for the agricultural sector could also be interpreted as a policy of avoiding massive rural exodus and a means of redistributing economic and social gains to the rural areas.

---

4. The emphasis on rural development could also be interpreted as a means of combating the infiltration of communist insurgency.

Table 4.7

Composition of the Senior Federation Bureaucracy, 1955-1962

	1955		1957		1960		1962	
	No.	%	No.	%	No.	%	No.	%
Expatriates	1,828	74.0	1,687	61.0	657	24.6	409	14.1
Malays	--	--	390	14.1	737	27.6	850	29.3
Chinese	782	26.0	366	13.2	750	28.1	987	34.0
Indians	--	--	191	7.0	384	14.4	462	15.9
Others	--	--	127	4.7	143	5.3	194	6.7
Total	2,610	100.0	2,761	100.0	2,761	100.0	2,902	100.0

Source: Rudner (1975), Table 1, p. 20 (adapted).



How were development strategies related to the reduction of poverty? A review of the earlier five-year development plan documents revealed that the development strategies and policies adopted by the state in the late 1950s and 1960s did not contain explicit attempts of finding solutions to the economic, social and political differentiations created by the colonial system.

The five-year development plans adopted by Malaysia had their origins in the Report of a Mission of the International Bank for Reconstruction and Development (IBRD), invited to Malaya in 1954. Following the Mission's explicit emphasis on the private enterprise character of the Malayan economy, the Malayan government was recommended to adopt policies conducive to investment and expansion in the private sectors of the economy, and a capital expenditure programme of \$776.6 million was proposed for the period 1955-59 (IBRD, 1955, p 33).

Subsequent to the IBRD Mission's recommended planning strategy, the Alliance government, which came to power in 1955, formulated the First Five Year Plan, 1955-60. This Plan took the form of a general statement of development policy with provisional department allocations of capital expenditure totalling \$1138.5 million, with 60 percent of the planned public investment directed towards economic development, 30 percent towards social development and 10 percent towards improving the administrative structure (Malaya, 1956, Para. 12). However, no specific output targets were included in the Plan.

Rudner (1975, p 36) criticised the Plan's bias towards the modern economic sector. The large subsistence agricultural sector had an allocation of a mere seven percent of the planned economic investment. In fact, the government

insisted that its continued dependence on the United Kingdom for Malaya's external security would be an additional boost for foreign investment; thus reflecting Malaya's military dependence on its former colonial ruler. Nevertheless, the Plan did contain a significant feature in the form of an unprecedented nine percent allocation for education, thus illustrating the government's commitment towards education as an investment in human resources.

The Second Five Year Plan, covering the period 1961-65, called for a gross investment of \$5050 million, an increase of two-thirds over the absolute allocation for the previous Plan (Malaya, 19961, Para. 73). Out of the total allocation, 71 percent was allocated to the economic sector, 24.5 percent to the social sector, and 4.5 percent to the government sector. As for the social services, allocations for education, health and housing totalled nearly one-quarter of planned expenditure, compared to an actual allocation of 14 percent in the First Five Year Plan (Malaya, 1961, Paras. 84-88). The heavy emphasis on the economic sector, however, reflected the government's presumption that only economic projects would generate greater income.

The Second Five Year Plan (1961-65), however, contained an important diversion from the First Five Year Plan (1956-60), in that planning objectives were defined in output and employment terms. The Plan projected a 15 percent increase in employment while national output was expected to grow by 22 percent at constant 1960 prices (Malaya, 1961, Para. 71). Furthermore, the quantitative distribution of investment in the Second Five Year Plan (1961-65) marked the beginning of the redistribution of economic growth towards development. Also, apart from the desire for economic growth, the political electorate's developmental expectations played an important part in



the planned transformation of the underdeveloped subsistence agricultural sector into a high productivity agrarian sector.

On the whole, compared to an annual average rate of population growth of 2.8 percent during 1947-57, and 3 percent after 1957, Malaya's percapita income increased by just 1 percent per annum to 1960. However, during the period of the Second Five Year Plan (1961-65), the average rate of GDP growth increased to 6.5 percent per annum, raising real percapita incomes to an average annual rate of 2.7 percent (Rudner, 1975, p 71).

In the late 1960s public development expenditure for Peninsula Malaysia increased somewhat threefold. Actual allocations for public development increased from \$1007 million for 1956-60 to \$2651.7 million for 1961-65 and \$3610.2 million for 1965-70 (1MP, p 71). As a matter of political expedience, emphasis was devoted to the rural development programmes, as the majority of the electorate were located in rural areas. In the agricultural sector, priority was given to rubber replanting, drainage and irrigation, and land development. Priority was also accorded to projects which provide a more stable infrastructure for the economy, such as the provision of electricity and water supply, schools and health facilities, transport and communications.

Real GDP grew at an average rate of 6.3 percent per annum in the 1960s (1MP, p 37). Growth took place within a framework of relative price and financial stability. During the same period mentioned above the retail price index rose by less than 1 percent per annum (2MP, p 16).

Generally, development in the 1960s reflected a success in the programmes of diversification. Table 4.8 shows changes in the structure of the economy between 1960 and 1970. Although agriculture remained the largest sector in

**Table 4.8**

**Malaysia: Gross Domestic Product by Industry of Origin**  
**1960 and 1970**

Industry	Percentage	
	1960	1970
Agriculture, forestry and fishing	38	31
Mining and Quarrying	6	6
Manufacturing	9	13
Construction	3	4
Electricity, water & sanitary services	1	2
Transportation, storage & communication	4	5
Wholesale & Retail Trade	16	13
Banking, Insurance & real estate	1	4
Ownership of dwellings	5	4
Public administration & defence	6	11
Services	11	7
GDP at factor cost	100	100

**Note:** figures include Sabah & Sarawak

**Sources:** First Malaysia Plan 1965-1970, Table 2-11, p. 37;  
Fourth Malaysia Plan 1981-1985, Table 2-1, p. 11; [adapted].



the economy, its share in the GDP decreased from 38 percent in 1960 to 31 percent in 1970. At the same time, manufacturing and the public sectors in the GDP rose from 9 percent and 6 percent to 13 percent and 11 percent respectively. While rubber and tin continued to dominate the export sector, their share of total merchandise exports declined from 69.2 percent in 1960 (1MP, pp 23-24) to 53.8 percent in 1970 (2MP, p 20). In addition, the palm oil industry expanded rapidly in the 1960s, so much so its export value grew at close to 20 percent per year for the period 1966 to 1970 (2MP, p 20). Changes in the structure of the economy meant a reduction in the degree of commodity concentration and the greater production for domestic use meant that the economy was less susceptible to the unstable conditions of the rubber and tin markets.

It may be argued that throughout the 1960s the state's economic philosophy was based on capitalism with democracy, and liberal trade policies which highly depended on foreign trade, as well as the encouragement of foreign capital inflows. Basically, the yardstick for development was the GDP's growth rate. Development was focused mainly on economic growth and agricultural diversification. The state adopted the assumption that accelerated growth would eventually spill over to the poor, as depicted by the state's aim of "increasing the well-being of Malaysia's rural inhabitants and other low-income groups" (1MP, p 2).

Still, despite some diversifications encouraged by the early development plans during the late 1950s and 1960s, there is substantial evidence which suggest that the rule of the post-independent government did not lead to plans which ameliorate poverty and the unbalanced social structure of colonial rule.

## GROWTH OR DEVELOPMENT

The preceding section illustrates the achievement of a medium-rate economic growth resulting in the "relative development success of Malaysia" (Kasper, 1974, p 2). Still, in the words of the Brandt Commission (1980, pp 23-24), "the prime objective of development is to lead to self-fulfilment and creative partnership in the use of a nation's productive forces", we could therefore pose several questions pertaining to Malaysia's considerable economic growth.

Seers (1979, p 12) suggests three crucial questions one should ask about a country's development: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If one or two of these core problems have been growing worse, the outcome would be growth without development, even if per capita income increased substantially. Therefore these are some of the crucial the questions that this thesis contemplate to resolve in the subsequent discussion on the state of development in Peninsula Malaysia.

## TRENDS IN THE SIZE DISTRIBUTION OF INCOME

This section will attempt to examine the problem of income inequalities<sup>5</sup> in Peninsula Malaysia. Data for the period 1957-70 are based on the two most comparable surveys, the Household Budget Survey of 1957-58 and the Post Enumeration Survey of the 1970 Housing and Population Census. These two

---

5. Due to a lack of data on other development indicators, like employment, wages and poverty levels, in this chapter the discussion will be limited to an analysis of the size distribution of income.



surveys give a comparable picture on the distribution of a household income in 1957-58 and 1970.

Table 4.9 shows an increase in the Gini Coefficient<sup>6</sup>, and this suggests a substantial increase in income inequality between 1957 and 1970. In 1957 inequality was moderate with the Gini coefficient of 0.41. The top 20 percent of households received 48.6 percent of total income, while the bottom 40 percent of households received only 16 percent. In 1957 the mean monthly household income of the top 20 percent income group was at \$524, while that of the bottom 40 percent was only \$86.

By 1970 the overall income inequality had increased, with the Gini coefficient at 0.51. While the top 10 percent of income recipients had increased their income by 50.5 percent on average, and the top 20 percent income group commanded 55.4 percent of the total income, the position of the bottom 40 percent group has declined substantially. The mean monthly household income of the bottom 40 percent group declined further from \$86 in 1957 to only \$75 in 1970, a reduction of 13 percent. Consequently their share of the total income has also reduced substantially from 16 percent in 1957 to only 11.6 percent in 1970, thus proving that they were the worst-off group.

---

6. The Gini coefficient is the most commonly used measure in the study of income distribution. It is an aggregate numerical measure of income inequality ranging, theoretically, from zero (perfect equality) to 1 (perfect inequality). The higher the value of the coefficient, the higher is the inequality of income distribution, and vice versa.

**Table 4.9**

**Size of Income Distribution Estimates.  
Peninsula Malaysia, 1957/58 - 1970**

Income Group	Mean Household Income (\$/month)		Share of Total Income (%)	
	1957/58	1970	1957/58	1970
Top 5%	953	1520	23.0	28.1
Top 10%	716	1078	32.2	39.9
Top 20%	524	749	48.6	55.4
Next 40%	191	218	35.4	33.0
Bottom 40%	86	75	16.0	11.6
All households	215	267		
Gini Coefficient	0.41	0.51		

Source: D.R.Snodgrass (1975), p. 262 (adapted).



The relatively high rate of population growth of 2.8 percent per annum (Lim, 1973, p 68), plus the extremely uneven patterns of unemployment and income distribution in the colonial period, as well as the cyclical nature of commodities prices were some of the reasons that hindered the poor income group from having a share in the substantial growth in total income experienced during the period 1957 to 1970.

If the distribution of income is analysed according to rural and urban sectors, as shown in Table 4.10, in 1957 inequality appeared to be lower in the rural compared to the urban sector. Still, with a mean monthly income of \$172, the income of rural households was significantly lower than the overall mean monthly household income of \$215. Moreover, the mean monthly household income of rural households was only 56 percent of that of urban households.

In 1970 inequality was still lower in the rural sector compared to the urban sector. However, inequality between the rural area and the urban appeared to have widened, the mean monthly household income of rural households had deteriorated to only 49 percent of that of urban households. Therefore, within the declining share of income of the bottom 40 percent of the population, the rural poor were relatively worse-off than their urban counterpart, even though inequality appeared to be greater in the urban sector and that the share of income of the urban poor was proportionately lower than that of the rural poor.

**Table 4.10**

**Size of Income Distribution Estimates, Rural and Urban  
Areas, Peninsula Malaysia,  
1957/58-1970 (in percentage)**

	Rural Households		Urban Households	
	1957/58	1970	1957/58	1970
Income group				
Top 5%	19.0	23.9	20.7	27.5
Top 20%	44.5	46.8	49.6	55.5
Middle 40%	37.3	36.7	33.2	32.8
Bottom 40%	18.2	16.5	17.2	12.2
Mean Household Income (\$/month)	172	201	307	407
Median Household Income (\$/month)	131	145	216	283
Gini Ratio	0.380.46	0.42	0.50	

Source: K.S. Jomo and S. Ishak, 1981 (adapted)



During the same period 1957-70 the median household income of rural households increased by a mere 10.7 percent from \$131 in 1957 to \$145 in 1970. On the other hand, urban households were a lot better-off with an increase of 31 percent from \$216 in 1957 to \$283 in 1970; again proving that the rural power gained less from the economic growth of the period.

Table 4.11 examines the pattern of income distribution estimates among the different ethnic communities. In 1957 the Chinese had the highest income inequality, followed by the Indians and the Malays. However, compared with Chinese and Indian households, Malay households had the lowest income level because their mean and median monthly household incomes were below those of the national levels. Malay households received a mean monthly household income of \$139, which was 46 percent and 59 percent of those of Chinese and Indian households respectively.

By 1970 the Malays had topped the list of income inequality, followed by the Indians and Chinese. The share of income of the bottom 40 percent of Malay households declined by 35 percent during 1957 to 1970. The Malay households continued to have the lowest mean monthly household income of \$177, or equivalent to 44 percent and 57 percent respectively of incomes of Chinese and Indian households, or 66 percent of the national level of \$267.

In terms of median household incomes per month, between 1957/58 to 1970 the level for Malay households increased by only 8.9 percent while that of the Chinese increased by 20.6 percent. The median monthly household income of the Indian households increased by 3.7 percent; even so their median income is well above the overall level of \$167 per month.

Table 4.11

Size of Income Distribution Estimates, by Major Ethnic Groups<sup>1</sup>, 1957/58 - 1970

Income Group	1957/58		1970		
	Malay	Chinese	Indian	All	
Top 5%	18.1	19.6	19.5	23.0	28.1
Top 10%	27.6	30.5	29.5	32.2	39.9
Top 20%	42.5	45.8	43.7	48.6	55.4
Next 40%	38.0	36.2	36.6	35.4	33.0
Bottom 40%	19.5	18.1	19.1	16.0	11.6
Mean Household Income (\$/month)	139	300	237	215	267
Median Household Income (\$/month)	112	223	188	156	167
% Among Total Households	55.0	33.0	11.5	100.0	100.0
% Share of Total Income	37.7	48.6	13.7		13.6
Gini Ration	0.342	0.374	0.347	0.41	0.463
					0.51

<sup>1</sup>Excludes "other" ethnic groups

Sources: D.R. Snodgrass (1980) p. 84; (1975), p. 262 (adapted); S. Ishak &amp; M.Z. Ragayah (1978) pp 35-36 (adapted).

The inter-ethnic income inequalities was further exacerbated by the fact that their income shares did not correlate to their proportions in the population. In 1957 while Malays comprised more than half of the total population, their income share was slightly more than a third of the total income. Conversely, the Chinese who comprised a third of the population commanded nearly half of the total income. This inequitable pattern of income distribution persisted until 1970.

In summary, the foregoing analysis certainly shows the existence of income inequalities, both between ethnic groups and within the different household income groups. The Malay households had incomes which were much lower than those of the Chinese and Indian households. In 1957 the richest 10 percent of households had an income eight times that of the poorest 40 percent, while in 1970 the ratio had increased considerably to fourteen times (refer to Table 4.9). Therefore it is true that between 1957 to 1970, rather than narrowing, inequalities appeared to be widening in every aspect of income distribution.

#### COGNISANCE OF POVERTY, 1970

Although the decade of the sixties was characterised by "a high rate of development activity in the country" (2MP, p 10), the impressive economic growth failed to check the problem of poverty. Table 4.12 shows the distribution of poor households according to occupational categories and sectors for the year 1970<sup>7</sup>. The data shows a high incidence of poverty among agricultural labourers, padi farmers, fishermen and rubber smallholders. On

---

7. Data on poverty levels in Peninsula Malaysia before the year 1970 are almost non-existent.



**Table 4.12**

**Peninsula Malaysia: Poor Households  
by Rural and Urban Strata, 1970**

	Total house- holds (‘000)	Total poor house- holds (‘000)	Incidence of poverty (%)	% among poor
<b>RURAL:</b>				
<i>Agriculture</i>	852.9	582.4	68.3	73.6
Rubber s/holders	350.0	226.4	64.7	28.6
Oil palm s/holders	6.6	2.0	30.0	0.3
Coconut s/holders	32.0	16.9	52.8	2.1
Padi farmers	140.0	123.4	88.1	15.6
Other agric.	285.9	185.6	64.9	23.5
Fishermen	38.4	28.1	73.2	3.5
<i>Other industries</i>	350.5	123.5	35.2	15.6
Sub-total (Rural)	1,203.4	705.9	58.7	89.2
<b>URBAN:</b>				
Mining	5.4	1.8	33.3	0.2
Manufacturing	84.0	19.7	23.5	2.5
Construction	19.5	5.9	30.2	2.5
Transport & utilities	42.4	13.1	30.9	1.7
Trade & services	251.3	45.4	18.1	5.7
Sub-total (Urban)	402.6	85.9	21.3	10.8
<b>TOTAL</b>	<b>1,606.0</b>	<b>791.8</b>	<b>49.3</b>	<b>100.0</b>

Source: Third Malaysia Plan, 1971-1975, Table 4-13,  
p. 73.

average the incidence of poverty in the rural areas was 59 percent. Rural poor formed 89 percent of the total poor households. Comparatively, the incidence of poverty was lower among urban occupational groups; the average incidence of urban poverty was 21 percent, which was much lower than the national rate of 49 percent. Thus the problem of poverty was greater in the rural sector compared to the urban sector.

Several factors contribute to the problem of poverty, especially in the rural areas. Firstly, there is the existence of economic dualism, which results in imbalances in income levels not only between the traditional and modern sectors but also between the different ethnic groups, due to the identification of race with location and vocation. The Malays predominate in the low-income traditional rural sector; they outnumbered the non-Malays by a factor of nearly three to one in this sector. Conversely, in the modern sector the non-Malays outnumbered the Malays by a factor of about five to two; while in the government sector Malays outnumbered non-Malays by about five to three (2MP, p 38). By reason of their predominance in the rural areas, therefore, Malay poverty is a direct result of the underdevelopment of the Malay peasantry which was discussed in Chapter Three. Thus the problem of poverty is greater in the rural areas, where 89 percent of poor households were located in 1970 (refer to Table 4.12)

Furthermore, a development strategy based on agricultural development was not able to initiate faster economic growth or produce a more equitable distribution of income. Since independence Malaysia's development strategy had placed considerable emphasis on the development of large-scale agricultural sector by opening new land schemes and distributing land to small-scale farmers. While it is true that such a policy was aimed at creating new jobs in the agricultural sector, thus minimising rural-urban migration as well as

evading the problem of dependent agricultural labour which are common in Latin America, it also meant the allocation of large resources into a slow-growth sector. Besides, an agro-oriented development strategy emphasising on the cultivation of commodities like rubber, palm oil and cocoa instead of food crops for domestic consumption also meant that the country's economy continue to depend on cyclical fluctuations in the world commodities market. Instead of increasing self-reliance, the state's development policies actually reinforced economic dependence.

( Rural development was seen as <sup>the</sup> the main avenue through which the economic position of the Malays could be improved. Thus the state made no attempt to ameliorate the problem of ethnic imbalance in the ownership of stock of corporations. In 1970, for example, the control of modern enterprises was mainly in the hands of foreign and Chinese interests, who owned 62 percent and 23 percent of stocks respectively, while the Malays owned a negligible 1.2 percent (Kasper, 1974, p 43).

### SUMMARY AND CONCLUDING REMARKS

Thus far the analysis has shown that development plans of the late 1950s and 1960s were aimed quite simply at the expansion of the level of economic activity, in particular in the modern sector. The plans were conceived within a deliberate national strategy to build on the economic developments of colonial rule rather than transform them - independent Malaya's economy continued to depend heavily on the export of tin and rubber. There appeared to be no conflict of interest between the independent state's economic



growth policies and metropole economies which were the main importers of Malaysia's primary commodities. In fact, any conscious plan to introduce radical reforms in the economic and social structures was absent from the independent state's agenda.

The growing social inequalities posed peculiar problems because they were perceived along inter-ethnic lines; a perception sanctioned by the state's communal-based political and social ideology. The independent state inherited the colonial economic structure almost intact, but tried to placate inter-ethnic inequalities by emphasising on rural development and therefore ascending Malay aspiration.

Nevertheless, within the framework of social security further problems could arise. Since the Malays are economically backward their saving capacity would be low and therefore they would not be able to make private social protection provisions. Would it be justified if the state adopts policies that mitigate the position of the Malays? Or should there be a general income protection scheme that cuts across ethnic lines? Whatever is the choice, certainly there is a need for a more equitable distribution of resources in order to ameliorate inter-ethnic inequalities, and this precisely the objectives of the New Economic Policy, which will be elaborated further in Chapter Nine.

Suppressed inter-ethnic resentments could not be contained forever. The Malays resented Chinese domination of commerce and trade which gave the latter economic advantage over all ethnic groups. On the other hand, the Chinese resentment was directed against Malay domination in the political formation.

Tensions caused by inequalities and ethnic resentments exploded in a post-general elections race riots of 13 May, 1969. Subsequently, this date became a watershed in the history of state economic and social policies; and the state was forced to promulgate changes in the course of Malaysian development planning.

## Chapter Five

### DEVELOPMENT POLICIES 1971 - 1990

#### INTRODUCTION

Chapter Four presented a review of some of the salient features of the post-independent Malaysian economic development strategies up to the year 1970. It was noted that despite the emphasis on rural development during the period 1956 to 1970, there were explicit signs of increasing social inequalities, perceived along inter-ethnic lines. These inequalities could be perceived as socio-political consequences of an economy divided along ethnic lines, originally laid down by the colonial administration and wholly inherited by the independent government.

One major outcome of the ethnic riots of May 1969 was the re-evaluation of national economic and social policies. The state believed that poverty of the rural Malays could be ameliorated by increasing their participation in the modern economic sector. Precisely because of this belief the state launched the New Economic Policy (NEP), embodied in the Second Malaysia Plan (1971-1975), and elaborated in the Outline Perspective Plan for the period 1971-1990 in the Mid-Term Review of the Second Malaysia Plan. Therefore the New Economic Policy needs to be reviewed to find whether it was likely to lead to some reduction of both urban-rural inequality and, more generally, poverty.



## THE NEW ECONOMIC POLICY 1971-90

The avowed aims of the NEP are:

- "i) to reduce and eventually eradicate poverty, by raising income levels and increasing employment opportunities for all Malaysians, irrespective of race;
- ii) to accelerate the process of restructuring Malaysian society, to correct economic imbalance so as to reduce and eventually eliminate the identification of race with economic function" (2MP, p 1)

This process involves the modernisation of rural life, a rapid and balanced growth of urban activities and the creation of a Malay commercial and industrial community, so that Malays will become full partners in all aspects of the economic life of the nation<sup>1</sup>. The NEP is further designed with certain elements thought to ensure the creation of " a socio-economic environment in which individual Malaysians find self-fulfilment within a system which provides for proportional participation, management and control in the economic life of the nation" (3MP, p 9). For the first time development objectives other than the growth rate of the economy were specified and quantified, with 1970 taken as the base year. Also for the first time, income inequalities were defined in terms of mean monthly household income and were classified further by ethnic groups and by rural and urban averages, as well as according to the occupational categories and educational levels of heads of households (3MP, pp 162; 163; 180).

---

1. For a full discussion on the aims of the NEP, see Second Malaysia Plan, 1971-1975, pp 43-48.

Inherent in the NEP is the notion of economic growth and the filter-down theory that was popular in the 1960s and early 1970s, and which had been proved to be a failure in several cases<sup>2</sup>. Economic growth in developing economies benefit more prosperous areas and better-off people while the backward areas and the poorer sections of the economy are left out almost completely. Furthermore, even if purchasing power increases, needs and perhaps tastes may also increase, thus rescinding the effects of increases in income.

### ECONOMIC DEVELOPMENT SINCE 1971

The state's expanded role in the economy also resulted in a rapid growth of public expenditure. During the Fourth Malaysia Plan period (1981-1985) development expenditure increased three times in absolute terms compared with that of the Third Malaysia Plan period (1976-80) and eight times compared with that of the Second Malaysia Plan period (1971-75) (5MP, p 13). In 1970 public investment formed only 5.7 percent of the GDP, but in 1980 the figure had increased to 8.8 percent and further increased to 14.9 percent in 1985 (4MP; p 17; 5MP, p 66).

Agricultural and rural development continue to command the highest of the development expenditure allocations by sectors; for example, 17 percent of the total allocation for the Fifth Malaysia Plan period (5MP, p 241), in view of the necessity to intensify the programmes on land development, integrated agricultural development projects as well as drainage and irrigation.

---

2. For an extended discussion on this topic refer to Haq (1976) and Dantwala (1973). But also see Newman and Thompson (1989), whose analysis of 46 developing countries suggest that the "trickle-up" hypothesis, as advanced by some proponents of the basic needs approach, is more consistent with the empirical data on the relationship between economic growth and social development.



Subsequent to the implementation of the NEP in 1971 structural changes occurred in the economy. Table 5.1 shows GDP by expenditure category. Between 1971 to 1980 the GDP grew at a rate of 7.8 percent per annum, while between 1981 to 1985 it grew by 5.8 percent, compared with 6.3 percent in the 1960s. Underlying the fall in average growth in the early 1980s was a deceleration in the expansion of the economy from 7.9 percent in 1980 to 5.6 percent in 1982 and a slight recovery to 6.3 percent in 1983. Growth expanded further at 7.6 percent in 1984 but dipped to 2.8 percent in 1985, mainly due to the decline in the manufacturing and mining output (5MP, p 39). Overall the Malaysian record of growth in the last thirty years has been rather impressive.

Between 1970 and 1980 real per capita income increased by 4.9 percent per annum (4MP, p 25). However, average increases in the Consumer Price Index were higher, at 5.8 percent per annum during 1971-79 (4MP, p 28) and 4.6 percent per annum between 1980-85 (5MP, p 51).

The structure of exports continued to register changes. The share of exports of goods and services in the GNP increased from 45 percent in 1970 to 62 percent in 1980 (TER 1981/82, p xi) and 59 percent in 1985 (TER 1988/89, p xi). Agricultural exports continued to account for a large share of total commodity exports, but declined as a proportion of gross exports from 52 percent in 1970 to 35.8 percent in 1980 and 19.3 percent in 1985 (2MP, p 19; 5MP, p 49).



**Table 5.1****GDP by expenditure category, 1970-1985**

Item	Share of GNP in current prices		Average annual rate of growth		
	1970	1980	1984	(%) 1971-80	1981-85
Consumption	77.8	71.1	69.0	8.4	7.0
Investment	17.3	31.0	34.2	12.2	8.1
Exports	45.1	62.3	58.2	7.6	6.9
Imports	40.4	59.2	56.0	9.8	6.0
GDP in market prices	103	104	107	7.8	7.9
GNP in market prices	100	100	100	7.8	7.1

Sources: Fourth Malaysia Plan 1981-85, p.17;  
Tab. 2-2;  
Fifth Malaysia Plan 1986-90,  
Tab. 2-2, p.46;  
(adapted).

The commodity component of merchandise exports had changed considerably since the 1960s. The share of rubber and tin continued to decline from 53 percent in 1970 to 26 percent in 1980 (4MP, pp 47-48). Meanwhile, the volume of exports expanded rapidly so much that by 1980 it formed 25.3 percent of total value of commodity exports, and its share in 1985 was 23.4 percent (ibid.). The share of manufactured products rose from 7 percent in 1970 to 21 percent in 1980 and 32 percent in 1985 (2MP, p 19; 5MP, p 49). This rapid growth in manufactured exports is largely due to the establishment of export-processing zones in the 1970s.

Significant structural changes also took place within the sectors in the economy during the period 1970 to 1985. As shown in Table 5.2, the share of agriculture in the GDP dropped from 31 percent in 1970 to 22 percent in 1980 and declined further to 20 percent in 1985; it was no longer the largest sector of the economy. Conversely, the manufacturing sector increased its share in the GDP from 13 percent in 1970 to 21 percent in 1980 and 19 percent in 1985. The share of the government sector in the GDP increased slightly from 11 percent in 1970 to 13 percent in 1980 and 12.3 percent in 1985.

On the whole, the overall growth rate of the GDP (in real terms) averaged at 7 percent per annum during the period 1971 to 1985 (5MP, p 11). For the overall period between 1971 and 1990 the real rate of growth of the GDP was estimated at 6.4 percent per annum<sup>3</sup>.

---

3. Personal communication with an officer of the Economic Planning Unit, 1990.

**Table 5.2****GDP by Sector of Origin**

Sector	Share of GDP (%)			Average annual growth rate (%)	
	1970	1980	1985	1971-80	1981-85
Agriculture, forestry, fishing	30.8	22.2	20.4	4.3	3.4
Mining & quarrying	6.3	4.6	10.3	4.6	6.0
Manufacturing	13.4	20.5	19.3	12.5	4.9
Construction	3.9	4.5	5.3	9.6	8.1
Electricity, gas & water	1.9	2.3	1.8	10.0	9.1
Transport, storage & communications	4.7	6.5	6.6	11.3	8.4
Wholesale & retail trade	13.3	12.6	12.9	7.3	7.0
Finance services	8.4	8.2	8.9	7.6	7.2
Government services	11.1	13.2	12.3	9.5	9.8
Other services	2.5	2.5	2.2	7.9	5.1

Sources: Fourth Malaysia Plan 1981-85, Table. 2-1, p.11 (adapted);  
Fifth Malaysia Plan 1986-90 Table 2-1, p. 40 (adapted).



Yet, global economic cycles have a significant impact on the Malaysian domestic economy. Economic slow-down in industrial countries would result in restrained external trade for Malaysia, which in turn would result in increased imbalances in external payments. The world economic recession of 1985-86 and the subsequent overall collapse in commodity prices resulted in a sharp decline in the actual rate of overall income, which in turn led to a stagnation in domestic activities (R5MP, p 13). For example, in 1984, when the external economy was at its peak, the real rate of growth of the GDP was 7.8 percent (the corresponding rate for OECD countries was 4.9 percent); but in 1985 the rate was -1 percent (3.2 percent for the OECD countries) (R5MP, Chart 2-1, p 13). Thus, because Malaysia is largely dependent on exports of primary commodities to the centre economies, fluctuating prices and therefore unstable incomes would make it a difficult task for the state to allocate funds with the objective of building up reserves for a social protection programme.

#### THE EMERGENCE OF STATE<sup>4</sup> CAPITALISM

During the colonial period the administration's main role was the provision of a stable monetary and political framework within which firms and individuals could pursue their businesses, plus an adequate network of essential physical infrastructure to serve the economic expansion of colonial firms. Upon gaining political independence in 1957, the state played a more active role in the development of agriculture and physical infrastructure in the rural areas, as well as expanding social services like health and education for the whole population.

In contrast, since 1971, following the inception of the NEP, the state explicitly sought an active role in the modern sector, with the aim of promoting the participation of Malays in this sector. Subsequently the state laid an increased

---

4. For a definition of the "state", please refer to chapter One, footnote 1, p. 3.

emphasis on commerce and industry. Public development expenditure allocated to commerce and industry increased from \$1658.6 million in the Second Malaysia Plan period (1971-1975) to a peak of \$5433 million in the Fourth Malaysia Plan period (1981-1985) and \$3238.7 million in the Fifth Malaysia Plan period (1986-1990) (4MP, Table 6-2, p 120; 4MP, App. A; 5MP, App. A). As a result, value added in real terms in commerce only grew from \$1633 million in 1970 to \$3295 million in 1980, while employment in the same sector increased from 371,100 in 1970 to 648,500 in 1980 (4MP, p 303). The state itself participates more directly in the establishment and the operation of a wide range of productive enterprises, either wholly or in joint-ventures with the private sector.

The years following the inception of the NEP saw "a rapid expansion of Government-owned corporations and trust agencies set up to accelerate the process of the restructuring of society" (5MP, p 13). Such enterprises would be held in trust for Malays until such time that they are able to purchase them from the state. The kind of enterprises are those in the manufacturing, finance, real estate and mining industries. In a study on public enterprises in Malaysia, Gale (1981, chapter 2) drew attention to the unique place of public enterprises in the Malaysian government's bold attempt to restructure the economic and social patterns of the society so as to achieve a more equitable racial balance in the employment pattern and the ownership of wealth. What emerged out of this bold exercise is a patrimonial system of government, which resembles the traditional indigenous Malay political system.

Theoretically the NEP justified state intervention in the area of capital restructuring. Nevertheless the manner in which the state penetrates into the capitalist economy is highly controversial. In order to expand its share in the economy and have virtual control over national production forces, the state initially acquired majority shares in the plantation and mining sectors, later in the financial sector; and by forcing



companies to restructure their equity to comply with NEP requirements. On the other hand, some interpret this development as favouring the larger, and subsequently multinational, corporations.

The decade from 1971 to 1980 saw a rapid expansion of new state enterprises<sup>5</sup>, many in joint-venture with transnational corporations, especially in the industrial sector. Thus in the 1970s and 1980s state agencies became the leading investors in the private sector. At the end of 1985, for example, the state's participation in the various public sector companies and agencies incurred approximately \$21 billion of which \$7.8 billion was in the form of equity, \$3 billion in the form of loans and the balance of \$10.2 billion in contingent liabilities (Finance Minister's Budget Speech, October, 1986) - creating what Mehmet terms as "industrial restructuring by trusteeship" (Mehmet, 1986, chapter 4), through specially-created Bumiputra companies such as Pernas, PNB, UDA and State Economic Development Corporations, often in joint-ventures with other investors, both foreign and domestic.

Still, several questions could be posed in relation to the performance of these companies. In 1988 of a total of 1133 government companies, 286 or 25 percent were inactive. Of the active companies, only 387 companies recorded accumulated profits totalling \$4,868 million while another 383 companies sustained losses amounting to \$5,610 million (TER, 1988/89, p. 96).

---

5. In 1951 there were only 10 public agencies compared with 701 state agencies in 1979. In 1986 state agencies held equity in 822 companies, giving the state control of 60 percent of the tin mining sector, 77 percent of the combined capital of 21 Malaysian banks, 60 percent of planted acreage and virtual control of the petroleum sector. (Halim, 1990, fn 26, p 85).



## THE LABOUR MARKET

So far the discussion has presented a brief documentation of the structural changes that took place in the economy since the inception of the NEP in 1971. In the following section the aim is to review whether structural changes in the economy have effected changes in the labour market, because any programme of income maintenance and social security has to consider the labour market conditions which exist in the economy.

### EMPLOYMENT TRENDS

Structural changes in the economy were accompanied by substantial growth and structural changes in employment. Table 5.3 and Figure 5.1 display the trends in employment growth in different sectors for the period 1965 to 1985. Diversification in the economy has meant a decline in the role of agriculture as the major sector of employment. In 1965 over half the total labour force was engaged in agriculture but in 1985 the proportion had decreased to slightly more than a third. On the other hand the secondary and tertiary sectors continue to absorb increasing proportions of the labour force. The secondary sector increased its share of the total labour force from 18.9 percent in 1965 to 28.7 percent in 1985; while the tertiary sector's share increased from 29 percent to 35.6 percent during the same period. In the decade 1971-80 the manufacturing sector recorded the highest rate of employment growth of 7.6 percent per annum, compared to 6 percent per annum in the government sector and only 1.9 percent per annum in the agricultural sector (4MP, p 82), and by 1987 the manufacturing sector, with a share of 22.5 percent of the GDP became the leading sector of the economy (TER, 1988/89, p 57).

**Table 5.3**

**Labour Force Estimates: 1965-1985**

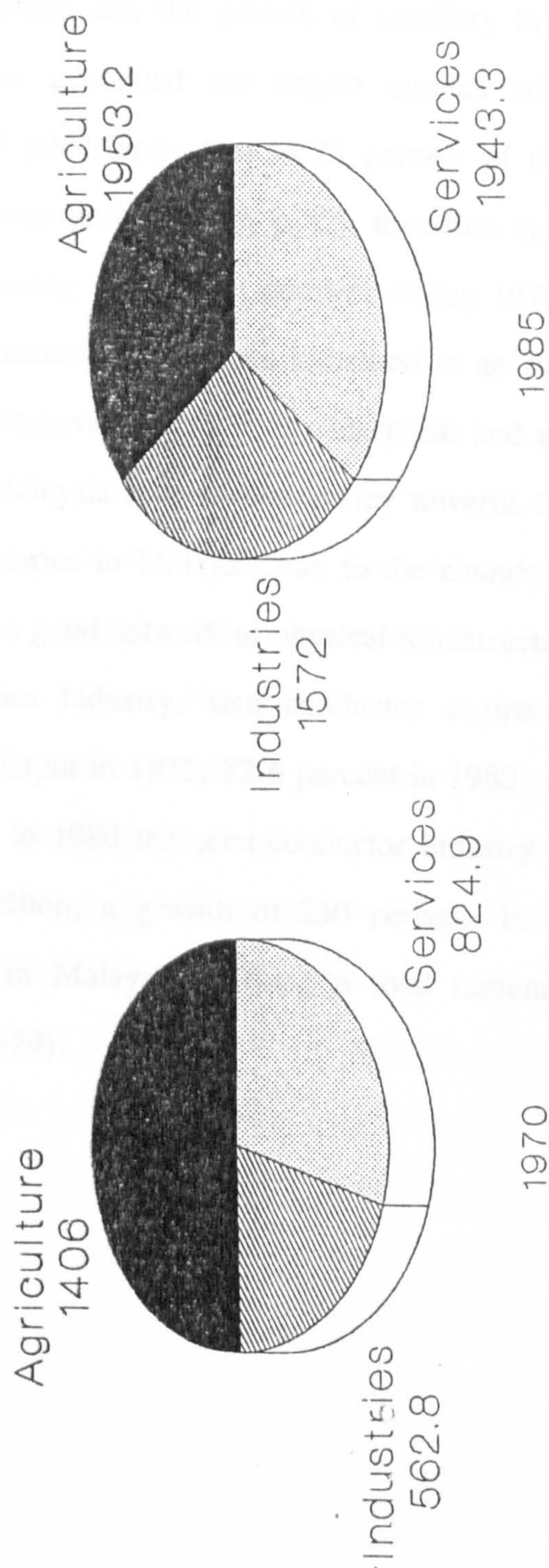
<b>Year</b>	<b>percentage of labour force in</b>		
	<b>Agriculture</b>	<b>Industries</b>	<b>Services</b>
1965	52.1	18.9	29.0
1970	50.3	20.2	29.5
1975	46.2	21.9	31.9
1980	39.7	27.7	32.6
1985	35.7	28.7	35.6

**Sources:** Second Malaysia Plan, Tab.7-1, p.98;  
Third Malaysia Plan, Tab. 4-14, pp. 78-79;  
Fifth Malaysia Plan, Tab, 4-6, p. 138;  
(adapted).



FIGURE 5.1

Labour Force Estimates: 1970 and 1985  
(in thousands)



Sources: 3MP, T.4-14, pp78-9;  
5MP, T.4-6, p138



So far the state has depended on the private sector for the generation of employment. Rapid employment creation has been achieved primarily through the expansion of the secondary and tertiary sectors, particularly in the labour-intensive manufacturing industries and the growth of ancillary linkages. For example, the manufacturing sector generated the largest number of jobs between 1971-80, totalling to 416,600 jobs, equivalent to 25 percent of the total new employment created during the same period (4MP, p 82), therefore indicating the existence of a substantial manufacturing workforce. Besides, during 1973 to 1978 employment in the electrical and electronics industries increased at an average rate of 22 percent (4MP, p 83). Employment growth in the electrical and electronics industries is a direct outcome of Malaysia's open-door policy towards transnational corporations who locate their factories in Malaysia due to the abundance of cheap labour plus fiscal incentives and a good network of physical infrastructure provided by the state. Within the electronics industry, semi-conductor companies accounted for 82.3 percent of the total output in 1976, 82.6 percent in 1980 and 84.2 percent in 1984; while between 1976 to 1980 the semi-conductor industry had grown from \$518.3 million to \$1714 million, a growth of 230 percent. In 1982 there were 68450 electronics workers in Malaysia, earning a total remuneration of \$333 million (Rasiah, 1988, pp 28-29).

Additionally, the 1970s saw an increase in the employment of female workers<sup>6</sup>, largely due to transnational corporations locating their factories in Malaysia, and because these corporations were able, and wanted, to employ low-paid employees, as a means of enhancing profits and controlling manufacturing wage-earners. By 1980, of 1.5 million experienced women workers, 49 percent were in the primary sector, 32 percent in the tertiary sector and 17 percent in the manufacturing industry (Chia, 1987, p 177).

Figure 5.2 shows the trends in absolute employment growth between 1965 and 1985. In 1965 there were 2.7 million employed in Peninsula Malaysia. In subsequent years the number of jobs had increased to 3.4 million in 1970 and to a further 5.46 million in 1985 (2MP, p 96; 4MP, p 81; 5MP, p 138). On the whole the period 1971-75 registered the highest rate of employment growth of 3.9 percent (3MP, p 140), reflecting an emphasis on the creation of new jobs under the NEP. Still, as shown in Figure 5.3, since 1976 the annual employment growth rate appears to be declining particularly for the period 1981 to 1985, thus reflecting Malaysia's vulnerability to the world economic recession.

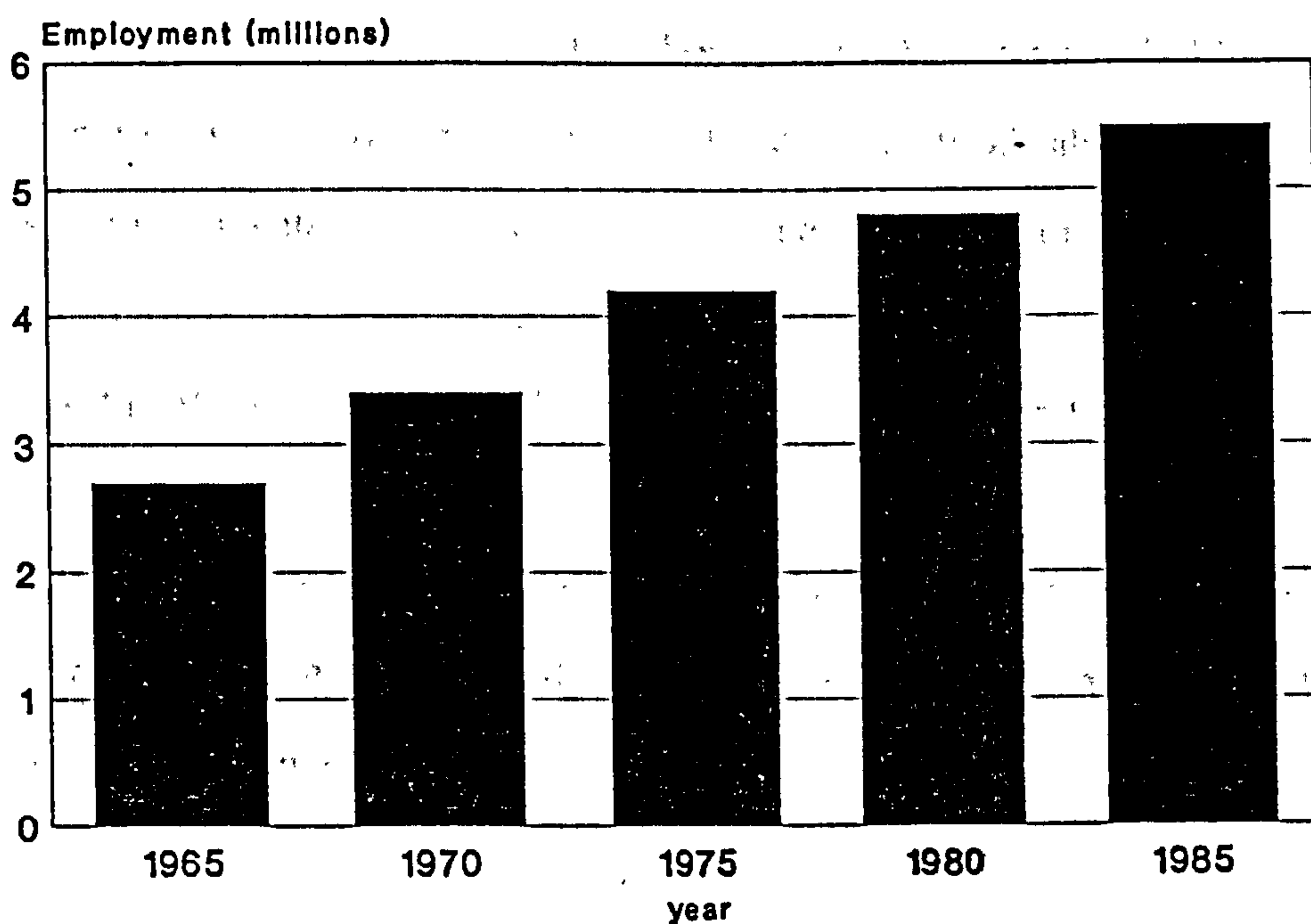
Precisely because one of the aims of the NEP is to restructure society, it is appropriate to comment on the ethnic composition of the labour force. In chapter Three it was pointed out that in the colonial period there existed a systematic policy of discrimination against the Malay peasantry, which resulted in an economy segmented by ethnic groups. Hence the composition of the Malaysian labour market does not display an ethnically integrated characteristic.

---

6. The topic of female employment in transnational firms shall be discussed further in Chapter 10.

**Figure 5.2**

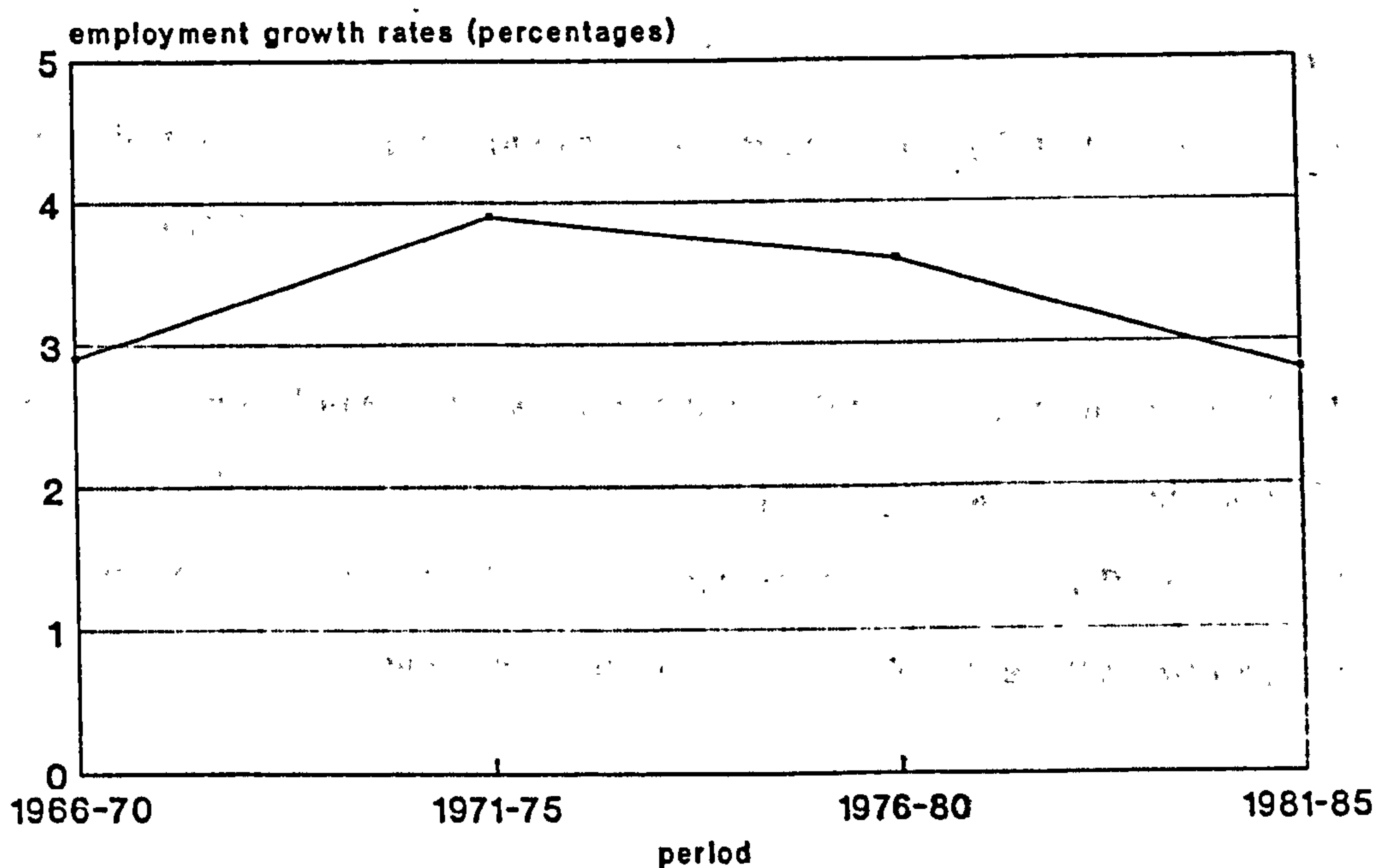
**Peninsula Malaysia: Growth in Employment  
1965 - 1985**



Sources: 2MP, p.96; 4MP, T.4-6,p.81;  
5MP, T.4-6, p.138 (adapted).

**Figure 5.3**

**Peninsula Malaysia: Average Annual  
Employment Growth Rates, 1966-1985**



Sources: 2MP, p.96; 3MP, p.140;  
5MP, p.137; R5MP, T.4-2, p.87  
(adapted).



Conversely, the labour market is segmented into different parts by sectors and ethnic groups. Yet, structural changes in the economy and changing trends in the labour force since the inception of the NEP in 1971 have not altered existing patterns in the ethnic composition of the labour force. As shown in Table 5.4 the Malays distinctly form a greater proportion of the agricultural labour force, while the Chinese still dominate the secondary sector. The larger proportion of Malays in the tertiary sector is the result of expansion in the government services and the absorption of the Malay labour force in the government administration.

Therefore, the fact that existing patterns of labour force participation are not altered totally reflects the somewhat limited structural changes inherent in the state's restructuring of employment policies.

### UNEMPLOYMENT PROFILE

Unemployment in Peninsula Malaysia is basically a structural problem, caused partly by rapid expansion of the working age population, which results in an increasing unemployment rate since 1980, as illustrated in Figure 5.4. Besides, unemployment is also caused by rigidities in the labour market. High labour costs resulted in industries adopting a more capital-intensive approach to their operations (TER 1988/89, p 153).

For instance the labour force increased at a rate of 3.9 percent per annum for 1971-80, while the growth rate for 1980-85 was only 3 percent per annum, and for 1985-90 it was expected to decrease further to 2.8 percent per annum (4MP, p 80; 5MP, pp 136, 141). As is common in other developing countries the majority of

**Table 5.4**

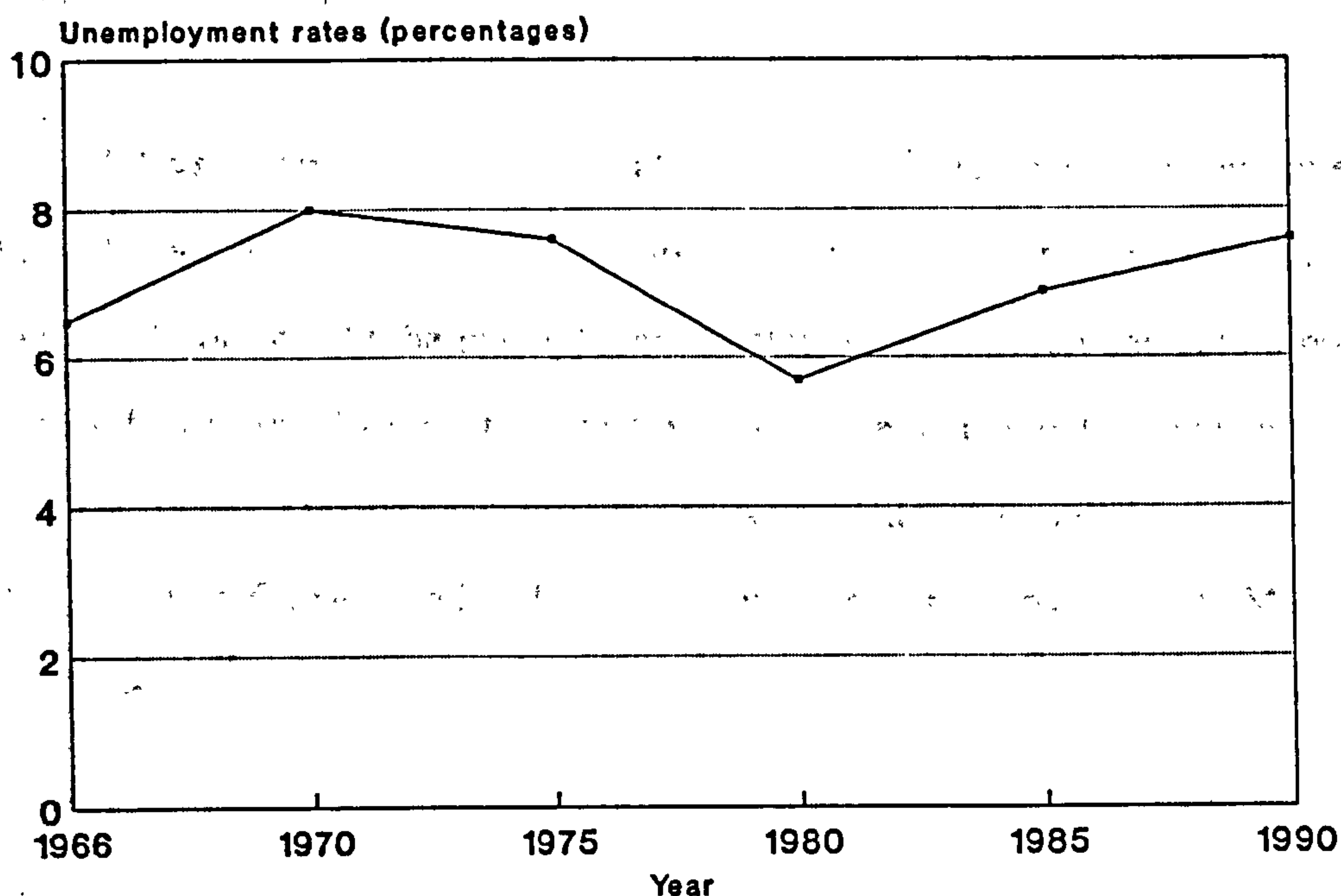
**Ethnic Composition of the Labour Force, 1965-1985**  
**(in percentages)**

Year/sector	Malay	Chinese	Indian	Others
1970				
Primary	67.6	21.4	10.1	0.9
Secondary	30.8	59.5	9.2	0.5
Tertiary	39.7	48.3	12.6	1.2
Total % of labour force	51.5	36.6	11.1	0.8
1975				
Primary	67.3	20.7	11.1	0.9
Secondary	36.5	53.3	9.8	0.4
Tertiary	42.3	47.3	9.5	0.9
Total % of labour force	52.2	36.2	10.8	0.8
1980				
Primary	66.3	19.9	13.0	0.9
Secondary	39.8	51.1	8.5	0.6
Tertiary	47.0	41.6	10.5	0.9
Total % of labour force	51.9	36.5	10.8	0.8
1985				
Primary	73.2	16.3	9.6	0.9
Secondary	44.3	46.1	8.8	0.8
Tertiary	50.1	40.3	8.7	0.9
Total % of labour force	57.4	32.6	9.2	0.8

**Sources:** Third Malaysia Plan, Tab. 4-14, pp. 78-79;  
Fourth Malaysia Plan, Tab. 9-5, p. 174;  
Fifth Malaysia Plan, Tab. 3-13, p. 119;  
(adapted).

**Figure 5.4**

**Peninsula Malaysia: Unemployment Rates,  
1966-1990.**



Sources: 2MP,p.99; 3MP,Tab.4-14,  
pp.78-79; R5MP,Tab.4-2,p.87.

the unemployed are within the 15 to 24 age group, thus reflecting the youthfulness of the unemployed; a large number of them are new entrants to the labour force. Furthermore, a greater proportion of the unemployed youth had formal education up to secondary school level, or equivalent to eleven years of schooling. Thus there is a high incidence of unemployment of 20 percent for this age group, compared to unemployment rates of 5 percent for those with no formal education and 9 percent for those who completed not more than six years of elementary schooling (4MP, p 80).

Overall the unemployment rate for females is one and a half times higher than that of males (4MP, p 78), and that the incidence of unemployment is greater amongst



females with some nine to eleven years of schooling (5MP, p 140). The question of female unemployment has serious implications on any comprehensive income protection scheme, and if present trends are allowed to continue it might lead to problems of poverty amongst females in later years.

The Fourth Malaysia Plan (p 78) drew attention to the fact that unemployment rates appear to be higher in urban areas where labour markets are more formalised than in rural areas. Unfortunately the unemployment rates for both urban and rural areas were not specified in the document. In reality, urban unemployment is generated in the rural areas, where Malays predominate and whose rate of population growth is higher than those of Chinese and Indians, plus an increasing movement of Malays into the urban areas<sup>7</sup>.

## WAGES

Precisely because the ultimate purpose of economic development is the improvement of the general standard of living, then an increase in real income and wages parallel to the increase in productivity should be regarded as a direct means of achieving this purpose. Accordingly, this section will present a cursory discussion, cursory because of data deficiencies, on wage trends that had occurred since 1963.

In a study on wage trends in the manufacturing sector, Hassan and Jomo (1980)

---

7. During the period 1981-85 the Malay population grew at an average rate of 2.9 percent, compared to 1.7 percent for Chinese and 2.1 percent for Indians (5MP, p 128) Due to rural-urban migration the Malay urban population of Peninsula Malaysia increased substantially, raising its proportion from 37.4 percent in 1980 to 41.3 percent in 1985 (5MP, p 132).

distinguished two patterns of average monthly real wage trends for the period 1963 to 1973. Between 1963 to 1968, corresponding to the mature period of the import-substitution programme, average real wages increased for both factory and non-factory employees. Average real wages for factory workers (as expressed in 1968 prices) increased from \$125 in 1963 to \$132 in 1968, while wages for non-factory employees increased from \$305 to \$346 during the same period. On the contrary, for the period between 1968 to 1973, corresponding to the initial stage of the export-promotion industrialisation policy, there was a decline in average real wages. Average real wages for factory workers declined from \$132 in 1968 to \$111 in 1973 (in 1968 prices), while average wages for non-factory workers declined from \$346 to \$336 during the same period. On the whole, average real wages (in 1968 prices) in the manufacturing sector increased from \$161 in 1963 to \$176 in 1968, but declined from \$176 in 1968 to \$152 in 1973.

From 1973 to 1975 real wages for all workers in the manufacturing sector remained more or less constant, after which they began to increase significantly at 5.2 percent between 1978 and 1979. Overall, for the period 1973 -79 real wages rose at an average annual rate of 2.6 percent (4MP, p 86).

In general there has been a tendency for real wages to keep ahead of labour productivity thereby causing an increase in wage costs (TER, 1988/89, p 155). When increases in real wages far exceed increases in productivity, the consequences is an increase in labour costs, causing industries to find measures of cutting labour costs according to orthodox neo-classical theories, and therefore causing unemployment.

During the period 1981 to 1985, with labour productivity at around 3 percent per annum each for the agriculture and the manufacturing sectors and 3.2 percent per annum in the services sector, most sectors of the economy experienced wage



increases, with the exception of rubber tappers on the rubber plantations (SMP, p 140). Monthly earnings of oil palm harvesters, for example, increased from \$344 in 1980 to \$421 in 1984, due to increases in the price of palm oil. Conversely, monthly earnings of rubber tappers declined from \$259 in 1980 to \$316 in 1985, due largely to lower rubber prices (ibid.). These two examples clearly illustrate how wages in the primary sector are affected by external factors such as world demand for primary produce.

Overall wages in the primary sector have tended to lag behind increases in the secondary sector and despite some government attempts to steer resources to the rural areas - partly accounting for deepening inequality between rural and urban economies and some of the problems of Malays (who are to be found disproportionately in these areas).

Meanwhile, in the electronics industry monthly earnings of female production workers rose from \$222 in 1980 to \$517 in 1985 (ibid). Still, on the whole, in the manufacturing sector, wage differentials exist for workers who perform similar jobs in different industries, and between males and females in similar occupations. Moreover, wages tend to be higher in more developed areas where the labour market is more competitive compared to less developed areas. Limqueco et. al. (1989, p 63) revealed that the best wages were available in Kuala Lumpur, around the sites with modern technology, compared with industries located in Penang. Furthermore, as shown in Table 5.5, income differences between men and women are more marked in Penang compared with Kuala Lumpur. The average income of women in Penang was only 58 percent that of men, while in Kuala Lumpur the proportion was 74 percent. These wage differentials between men and women bear implications on the status of female employment. It implies that they are treated as second-class workers, an issue that will be examined further in Chapter 10.



**Table 5.5**

**Monthly Income of the Industrial Labour Force  
in Penang and Kuala Lumpur**

Income (\$ per month)	Men %	Women %
Penang		
0-200	17	64
201-350	42	33
351 and over	41	3
Kuala Lumpur		
0-300	30	70
301-500	51	24
501 and over	19	6

Source: Limqueco, McFarlane & Odhnoff (1989),  
Table 4.10, p. 184.

Viewed from an alternative angle, wage trends in Malaysia reflect the role of the state as mediator between labour and capital. Eversince the colonial days, Malaysia has a tradition of suppressing militant trade unions while the development of passive and officially-approved ones are nurtured by the state<sup>8</sup>. The Industrial Relations Act of 1967, later amended in 1971, restricts procedures for collective bargaining and settlement of industrial disputes, and that management has the right not to negotiate on issues such as those concerning dismissals and transfers. Union officials are barred from being office-bearers in political parties and unions are prevented from maintaining political funds. Furthermore, the Act restricted the range of issues over which trade unions can launch a strike, while the power of management are strengthened - for example management need not disclose reasons for the dismissal of workers. At the same time the Registrar of Trade Unions are given the power to curb the formation of new, non-affiliated unions (hua, 1983, pp 165; 191). |

Malaysia does not have a minimum wage legislation. Besides, prospective investors are assured by the state against any excessive and unreasonable demands from unions (FIDA, 1975, pp 13-14). Clearly this is one main reason why transnational corporations readily locate their subsidiary factories in the country. Capital accumulation is closely safeguarded by the state.

---

8. As an example , in 1948, when trade union militancy reached its peak, many unions were deregistered, resulting in a reduction of trade union membership to a third of what it was at the beginning of the year (Edwards, 1975, App.4). In 1949 the colonial administration passed the Trade Disputes Ordinance, severely restricting the right of workers to strike, while the subsequent Employment Ordinance of 1955 provided for dismissal on such subjective grounds as misconduct. Between 1956-57 forty five militant anti-colonial trade unions were deregistered by the departing colonial regime (Hassan & Jomo, 1980, p 6).

The fact that the state is partial towards capital in its role as mediator of capital-labour relations indirectly has an impact on both the demand as well as provision and delivery of occupational social services, including income maintenance and social security. Precisely because trade unions, more often than not, are prevented from making representations on behalf of their members, employers therefore could get away by providing only minimal health and welfare services, although these fringe benefits are sometimes highlighted in their recruitment programmes.

Transnational corporations, for example, give so much emphasis to welfare services and benefits<sup>9</sup> they have to offer when recruiting new employees. More often the provision of health and welfare services are seen as integral to the process of labour control, and that industrial firms provide these services not only as a response to the local structural conditions but also to strengthen capital (Lin, 1986, p 458). Hence health and welfare programmes provided are those which are essential in maintaining the labour force and minimum ill-health among the workers, i.e. two conditions which are necessary for the exploitation of labour.

### OWNERSHIP AND CONTROL OF THE CORPORATE SECTOR

In addition to the problems of ethnic differentiation in employment patterns leading to an unequal distribution of income, a related problem is the distribution of wealth and control over the corporate sector.

---

9. Transnational companies usually provide benefits like an annual bonus equivalent to one month's wages, health care, free transportation, subsidised accommodation, recreational and sports facilities and social activities, such as annual dinners and fashion contests (see Lin, 1986, pp 456-457).



Table 5.6 shows a breakdown of the corporate sector between 1971 to 1985. The data reveals that in 1971 a phenomenal proportion (62 percent) of the corporate sector was controlled by foreign interests. Likewise, non-Malay Malaysians hold substantial holdings amounting to 34 percent in 1971. On the contrary, the Malays controlled a mere 4.3 percent of the corporate sector (valued at \$6564.1 million in 1971), which was distinctly incongruous to the proportion of Malays in the population. The fact that Malays do not control the corporate sector somewhat negates their dominance in state and political matters.

Under the "restructuring of society" objective of the NEP, the growth of Malay control in the corporate sector, at 17.8 percent in 1985, appears to be somewhat pedetentous, reflecting that the state is avoiding a radical change in the structure of corporate ownership. Although foreign corporate interests appear to have declined since 1980, one possible explanation is that ownership of foreign shares have been transferred over to other Malaysian residents, whose share of the corporate sector has risen from 34 percent in 1971 to 56.7 percent in 1985, rather than to the Malays.

### TRENDS IN INCOME DISTRIBUTION 1970 - 1987

Given that economic development under the NEP has reduced the incidence of poverty from 49.3 percent in 1970 to 17.3 percent in 1987 (5MP, p 85; R5MP, p 47), one could therefore pose the following questions: What are the distributional consequences of the development strategy adopted so far? To what extent has the NEP altered the patterns of income inequalities since 1971? Hence in this section the purpose is to analyse the current trends in the household distribution of income in Peninsula Malaysia between 1971 to 1987. It should be noted, however, that the analysis is limited to data obtained through secondary sources; and given that this

**Table 5.6**

Ownership of the Corporate Sector,  
1971-1980 (in percentages)

	1971	1980	1985
Malay	4.3	12.5	17.8
Other			
Malaysians	34.0	44.6	56.7
Foreigner	61.7	42.9	25.5
Total			
(\$ million)	\$6564.1	\$32420.4	\$761120

Source: Fourth Malaysia Plan 1981-85, Table 3-14,  
p. 107;  
Fifth Malaysia Plan 1986-90, Table 3-8,  
p. 107; [adapted].

study adopts a macro-economic perspective, the analysis will <sup>be</sup> somewhat concise in nature.

Available evidence after the year 1970 portrays a continued existence of income inequalities. Table 5.7 shows the skewed nature of the size distribution of household income according to different income groups for selected years between 1970 and 1987.

The Lorenz curve, which is illustrated in Figure 5.5 reveals there may have been a slight decrease in overall inequalities. While the shift is not significant it does indicate that at least the direction of change in income distribution is not towards increasing inequalities. Of course, this will partly depend on the extent to which the measure of income has remained both reliable and representative, especially of the extremes in the distribution, during the period in question.

What is clear from the data, however, is that the middle 40 percent of households have gained relatively more than the bottom 40 percent. The income share of the former income group increased by 2.5 percentage points while the share of the latter group increased by only 2.2 percentage points. As in many other countries with both agricultural workers and migrants in considerable numbers in the population there is always room for argument about the 'coverage' of the sample in income surveys.



Table 5.7

Size Distribution of Household Income, 1970-1987  
(in percentages)

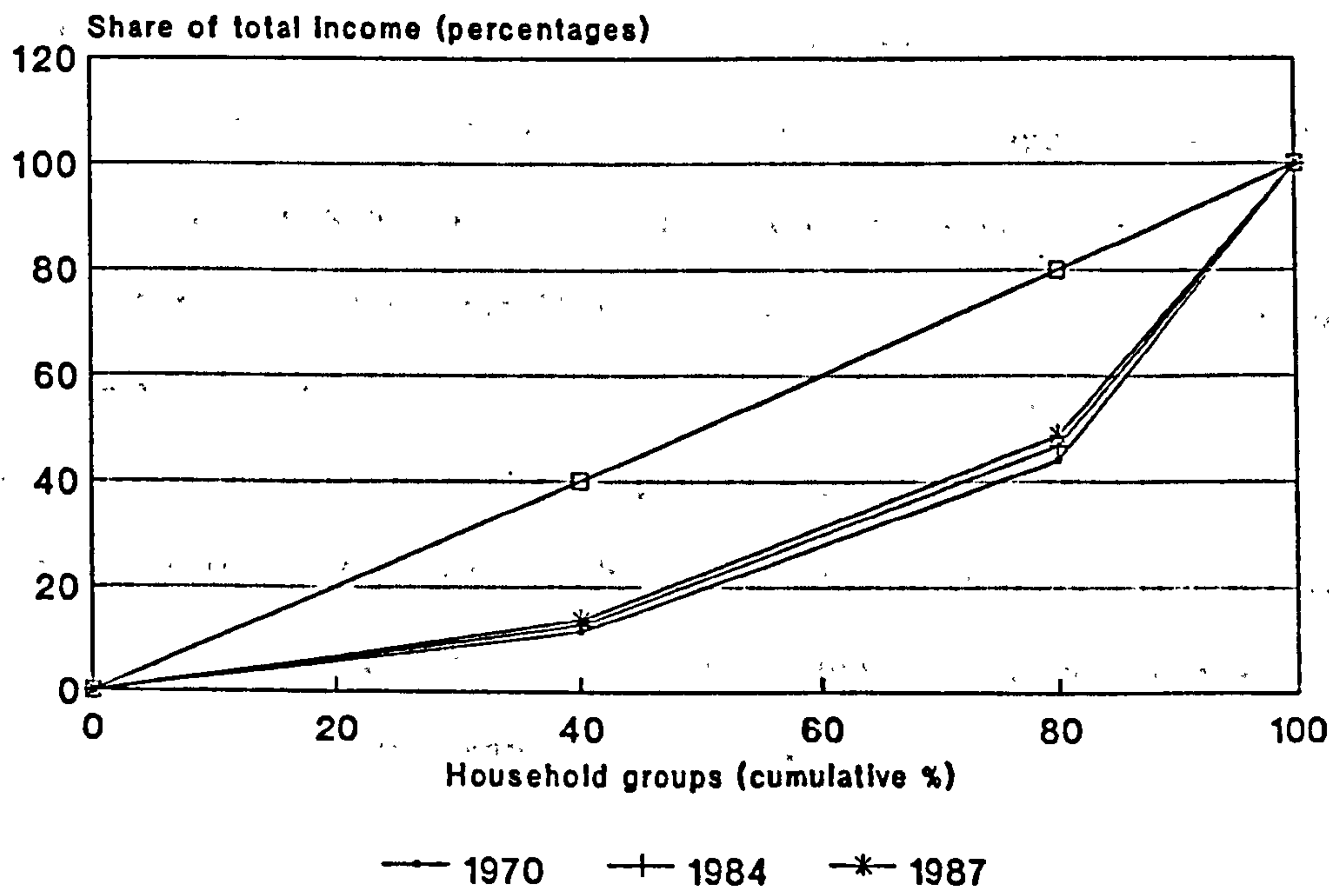
Household Groups	1970	1984	1987
Top 20%	55.9	53.2	51.2
Middle 40%	32.5	34.0	35.0
Bottom 40%	11.6	12.8	13.8

Sources:

1. Jomo & Shari (1981) p. 215, Table 1;  
Review of Fifth Malaysia Plan, p. 38, Table 3.1;  
[adapted].

Figure 5.5

Peninsula Malaysia: The Lorenz Curve of  
the Size Distribution of Household  
Income, 1970, 1984, 1987.



Source: as in Table 5.7

Table 5.8 and the accompanying Figure 5.6 show the pattern of size income distribution in rural and urban areas for the period from 1970 to 1987. Although inequality appears to be higher in urban areas, the data, however, show a wide disparity between the income of rural and urban households. In 1970 the mean monthly household income of rural households was 46.7 percent that of urban households, while the median monthly household income in the rural areas was slightly over half of that of urban households. By 1987 some improvements have been made, the corresponding proportions were 58 percent and two-thirds respectively. Again, World Bank and other studies raise difficulties about the interpretation of such differences. The evidence suggests that while the rural/urban difference is real, it is smaller in extent than the cash-related measures of income suggest - because of the part played in household and family affairs by home production or income in kind. Also, differences in consumption patterns and prices between urban and rural areas could mean that the same level of household income would yield significantly different levels of living.

Table 5.9 and the accompanying Figure 5.7 seek to show the mean and median monthly household income and its change over time for the major ethnic groups in Peninsula Malaysia for the period between 1970 to 1987. In general between 1971 to 1979 the mean and median household incomes of all ethnic groups showed favourable growth rates of more than 10 percent per annum in each case. On the contrary, between 1984 and 1987 the mean and median household incomes of all ethnic groups showed negative or negligible growth rates, clearly reflecting that the economy was in the slump. Compared with Chinese and Indian households, Malay households - being largely agricultural and rural, therefore were more easily affected by decreases in prices of commodities - received the lowest income.

**Table 5.8**

Size Distribution of Household Income by Rural and Urban Stratum, 1970-1987 (in percentages)

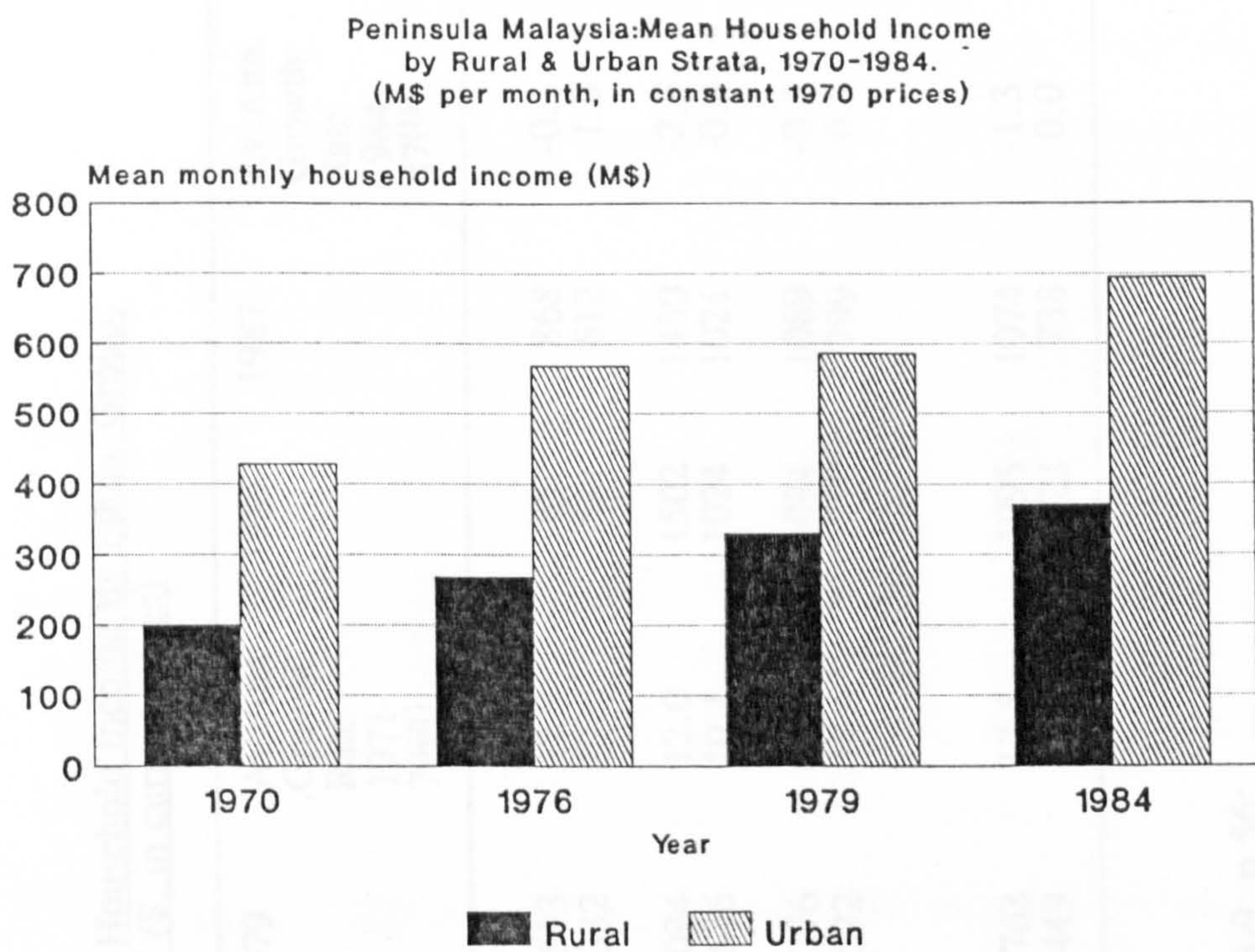
Household Group	1970		1984		1987	
	Rural	Urban	Rural	Urban	Rural	Urban
Top 20%	51.0	55.5	49.5	52.1	48.3	50.8
Middle 40%	35.9	32.8	36.4	34.5	36.7	35.0
Bottom 40%	13.1	12.1	14.1	13.4	14.2	14.2
Mean Monthly Household Income (\$)	200 (n.a.)	428 n.a.	824 (596)	1541 (1114)	853 (604)	1467 (1039)
Median Monthly Household Income (m\$)	139 (n.a.)	265 (n.a.)	596 (431)	1027 (743)	629 (445)	1004 (711)

**Note:** Figures in parentheses are in constant 1978 prices.

**Sources:** Jomo & Shari (1981), Table 1, p. 215  
4MP, Table 3-9, p.56.  
R5MP, Table 3-1 p. 38; Table 3-2, p.39



Figure 5.6



Sources: 4MP, Tab.3-9, p.56;  
5MP, Tab.3-4, p.99.



**Table 5.9**

Mean and Median Montly Household Income By Ethnic Group,  
1970-1987 (\$, in current prices)

Ethnic Group	1970	1976	1979	Av. Ann Growth Rate 1971- 79(a)	1984	1987	Av. Ann. Growth Rate 1984- 87(b)
Malay							
mean	172	345	513	12.9	852	868	-0.1
median	120	233	332	12.0	581	612	1.0
Chinese							
mean	394	787	1094	12.0	1502	1430	-2.3
median	268	480	636	10.1	1024	1021	-0.8
Indian							
mean	304	538	776	11.0	1094	1089	-0.9
median	194	360	522	11.6	770	799	0.5
All Ethnic Groups							
mean	264	514	763	12.5	1095	1074	-1.3
median	166	313	449	11.7	723	738	0.0

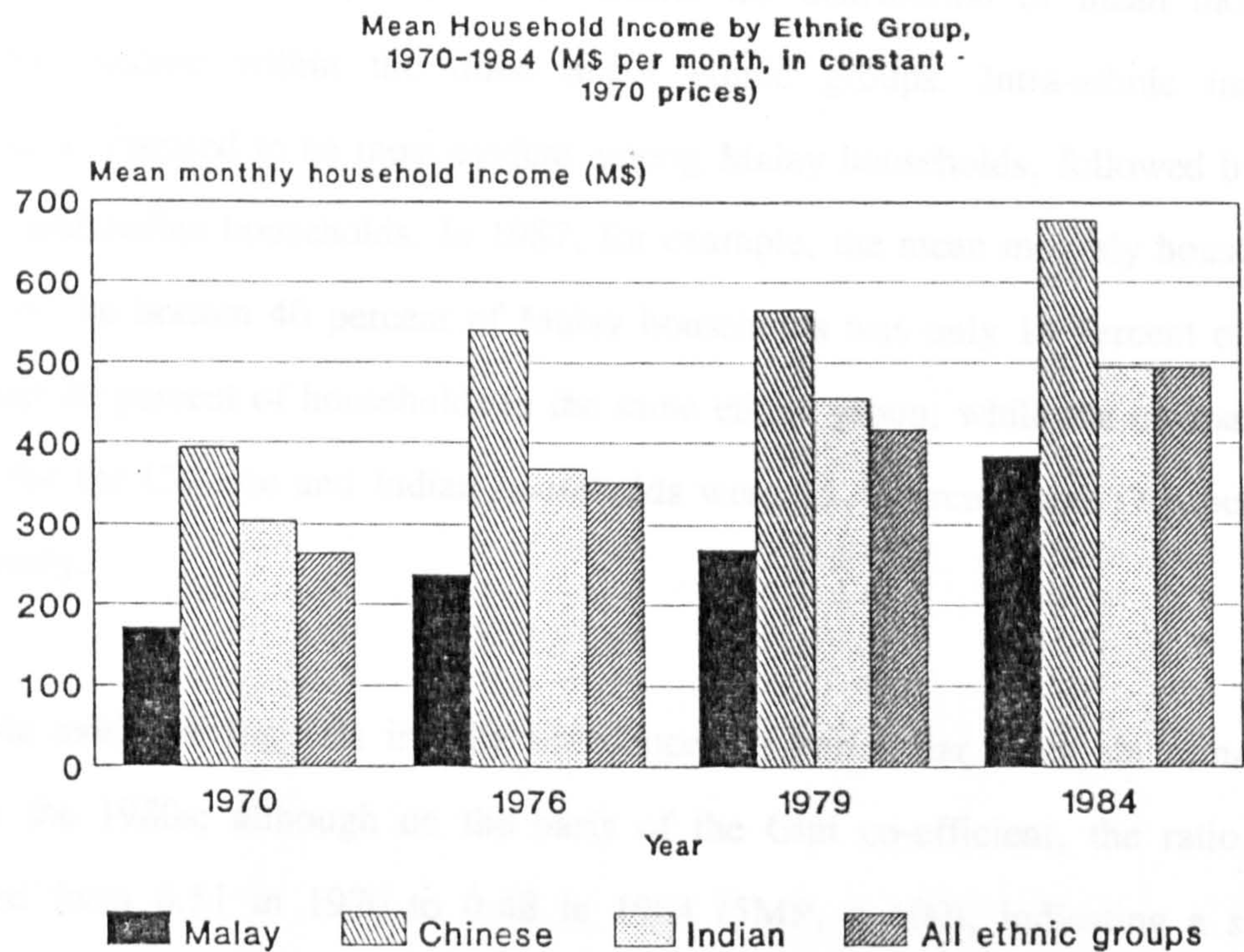
Notes: (a) Based on 1970 constant prices

(b) Based on 1978 constant prices

Source: Fourth Malaysia Plan 1981-85, Table 3-9, p.56;  
Review of the Fifth Malaysia Plan 1989,  
Table 3-2, p.39; [adapted].



Figure 5.7



Sources: 4MP, Tab. 3-9, p. 56;  
5MP, Tab. 3-4, p. 99.



However, inter-ethnic inequalities are not the only issues in income inequalities observed in Malaysia. Based on data obtained in the Household Income Surveys for the years 1984 and 1987, Table 5.10 shows the distribution of mean monthly household income within the three major ethnic groups. Intra-ethnic income inequalities appeared to be most evident among Malay households, followed by the Chinese and Indian households. In 1987, for example, the mean monthly household income of the bottom 40 percent of Malay households was only 14 percent of that of the top 20 percent of households in the same ethnic group; while the comparable figures for the Chinese and Indian households were 15.3 percent and 17.8 percent respectively.

Available evidence suggests income imbalances in Peninsular Malaysia remained wide in the 1980s; although on the basis of the Gini co-efficient, the ratio had narrowed from 0.51 in 1970 to 0.48 in 1984 (SMP, p 100), indicating a slight improvement in overall income inequalities. Still, compared to patterns of income distribution in OECD countries for example, Malaysia shows a high degree of inequality. Table 5.11 displays the patterns of income distribution in selected Third World countries and the industrial market economies. Certainly income distribution is more unequal in developing countries compared with developed countries.

This somewhat cursory discussion on the trends of the distribution of household income between 1970 and 1987 has indicated that the pattern of income inequality has altered only marginally during that period. There still exists a wide disparity between the income of rural households, where the majority of Malays are located, compared with the income of urban households. If left to the market the inequality between primary and secondary sectors would grow and therefore the inequality between rural and urban would also grow. While intra-ethnic income disparities are also evident, existing income inequalities are not perceived as inter-class differences

Table 5.10

Peninsular Malaysia: Mean Monthly Household Income by Ethnic Group, 1984 and 1987 (in current price and 1978 price in parentheses)

Ethnic Group	1984			1987				
	Top 20%	Mean Income (\$) Middle 40%	Bottom 40%	Total	Top 20%	Mean Income (\$) Middle 40%	Bottom 40%	Total
All ethnic groups	2917 (2110)	932 (674)	348 (252)	1095 (792)	2752 (1948)	940 (665)	370 (262)	1074 (760)
Bumiputera	2213 (1600)	741 (536)	283 (205)	852 (616)	2178 (1542)	773 (547)	306 (217)	868 (614)
Chinese	3838 (2776)	1310 (947)	527 (381)	1502 1086)	3500 (2478)	1286 (910)	538 (381)	1430 (1012)
Indian	2646 (1914)	967 (699)	445 (322)	1094 (791)	2570 (1819)	978 (692)	459 (325)	1089 (771)

Source: Review of Fifth Malaysia Plan 1989, p. 42, Table 3-3.

**Table 5.11**

Patterns of Income Distribution in Selected Countries

Country	Year of Data	GNP per capita (\$US) 1986	Relative Share of Income by Income Class (%)		
			Lowest 40% of h/holds	Middle 40% of h/holds	Top 20% of h/holds
Philippine	1985	560	14.1	33.4	52.5
Brazil	1972	1810	7.0	26.4	66.6
Malaysia	1973	1830	11.2	32.7	56.1
Mexico	1977	1860	9.9	32.4	57.7
U. K.	1979	8870	16.5	41.8	39.7
Netherlands	1981	10020	22.4	41.4	36.2
Denmark	1981	12600	17.4	44.0	38.6
Japan	1979	12840	21.9	40.6	37.5
Sweden	1981	13160	20.5	37.8	41.7

Source: World Bank (1988), Table 26, pp. 272-273; (adapted).



but rather it is perceived in ethnic terms, perhaps because of the tolerated and officially-approved expressions of social inequalities along ethnic lines. At the same time state intervention attempts to narrow the gap between rural (Malay) and the urban (Chinese) strata. Government policies since the 1970s are in fact compensating for the worsening of the situation of social inequalities rather than improving it. Much therefore depends on scientific, and popular, judgments about the adequacy of low income.

Nevertheless one ought to have reservations on the definition of income used in household surveys, such as the Household Income Surveys of 1984 and 1987. DaVanzo and Kusnic (1983) suggest that the exact definition of the income concept influences the degree of income inequality one is likely to find. Using the criterion of cash income is not, as suggested above, adequate. Heads of households do not invariably state, nor are they asked to give full details about, income in kind, which may be of a considerable amount among farmers and smallholders. Often they are people with low cash incomes but possess some assets, like a house, plus income in kind, such as agricultural produce, that would raise their standard of living. Similarly in the case of households in the upper income brackets, it may be possible that fringe benefits from employers, such as rent-free accommodation, could add substantially to their standard-of-living.

One general point also deserves to be made about trends in the inequality of income. Policies which bring about modest percentage redistribution, such as the actual changes experienced between 1984 and 1987 (see Table 5.9) can bring substantial improvements to the poorest section of the population. Thus, it is possible to recommend measures which might over a period of five years reduce the real disposable income of the richest 20 percent by a mere 5 percent, and yet such measures could also imply that the incomes of the bottom 20 percent could be increased by 40 to 50 percent.

## COGNISANCE OF POVERTY, 1971-1987

In chapter Four the argument contends that economic development in the 1960s failed to check the problem of poverty. Although the state had emphasised on large-scale agricultural development, such as the resettlement of landless farmers in new land schemes, in actual fact vast amount of resources were channelled towards a slow-growth sector. On account that the NEP was drawn up specifically to eradicate poverty and restructure society, in this section the objective is to consider what has happened to poverty since 1971.

Table 5.12 shows the progress made in the reduction of the incidence of poverty in the rural and urban sectors and according to various occupational categories between 1970 to 1987. On the whole the incidence of poverty has declined from 49.3 percent in 1970 to 17.3 percent in 1987. Nevertheless, the incidence of poverty is greater in the rural sector. In 1970 the incidence of rural poverty was 2.7 times that of the incidence of urban poverty, but by 1987 the ratio had increased to three. Rubber smallholders and padi farmers continue to form the majority of the rural poor, with poverty rates of 40 percent and 50 percent respectively in 1987.

In the urban sector, although the incidence of poverty had decreased from 21 percent in 1970 to 17.8 percent in 1976, the number of poor households had actually increased during the same period, reflecting the impact of rapid rural-urban migration during that period. In the mid-1980s the rate of urban poverty continued to decline and the number of urban poor households decreased, an indication of some progress which coincided with the period of employment expansion in the secondary and tertiary sectors and the decline in employment in the



Table 5.12

Incidence of Poverty, by Rural-Urban Strata, 1970-1987

Stratum	1970 Total poor h/holds ( '000)	Incidence of poverty (%)	1976 Total poor h/holds ( '000)	Incidence of poverty (%)	1984 Total poor h/holds ( '000)	Incidence of poverty (%)	1987 Total poor h/holds ( '000)	Incidence of poverty (%)
RURAL	705.9	58.7	669.6	47.8	402.0	27.4	403.2	22.4
Rubber s/holders	226.4	64.7	73.8	58.2	67.3	43.4	83.1	40.0
Padi Farmers	123.4	88.1	156.9	80.3	67.3	57.7	54.4	50.2
Estate Workers	59.4	40.0	n.a.	n.a.	16.0	19.7	11.7	15.6
Fishermen	28.1	73.2	17.6	62.7	9.5	27.7	10.7	24.5
Coconut smallholders	16.9	52.8	12.4	64.0	6.6	46.9	4.9	39.2
other agric.	128.2	89.0	275.4	52.1	158.8	34.2	n.a.	n.a.
other industries	12.35	35.3	139.5	27.3	76.5	10.0	n.a.	n.a.
URBAN	85.9	21.3	94.9	17.9	81.3	8.2	82.6	8.1
Agriculture	n.a.	n.a.	10.0	40.2	8.9	23.8	n.a.	n.a.
Mining	1.8	33.3	0.5	10.1	0.3	3.4	n.a.	n.a.
Manufacturing	19.7	23.5	9.5	17.1	11.3	8.5	n.a.	n.a.
Construction	5.9	30.2	6.1	17.7	5.3	6.1	n.a.	n.a.
Transport & Utilities	13.1	30.9	9.1	17.1	2.7	3.6	n.a.	n.a.
Trade & Services	45.4	18.1	33.7	13.9	21.9	4.6	n.a.	n.a.
Others	n.a.	n.a.	26.0	22.4	30.9	17.1	n.a.	n.a.
TOTAL	791.8	49.3	764.4	39.6	483.3	18.4	485.8	17.3

Sources: Fifth Malaysia Plan 1985-90, Table 3-1, p. 86;  
Review of the Fifth Malaysia Plan 1989, Table 3-6, pp. 52-53; [adapted].



agricultural sector (refer to Table 5.4). Between 1984 and 1987 the incidence of urban poverty remained constant at around 8 percent, but the number of urban poor households increased by some 1.6 percent from 81,300 in 1984 to 82,600 in 1987, indicating that urban workers particularly in the construction, trade and transport industries were badly affected by the economic recession of that period.

On the whole, the analysis so far in this chapter shows that not all the actual outcome of development policies since 1971 is consistent with the expectations of the NEP. While it is true that overall income inequality has improved slightly between 1971 and 1987 (refer to Figure 5.4), still, the benefits of growth have not been equitably shared among different classes of the population. In general, development experiences since 1971 have shown that even though growth has led to a general reduction in the incidence of poverty, it has also widened the income differences between the different social and occupational groups in the country. While absolute poverty declines, relative or income-related poverty increases. It is this question of persistent poverty that will be examined in more detail in the following chapters.

### **SUMMARY AND CONCLUDING REMARKS**

To recapitulate the reader's memory, in Chapter Four some questions which have been pertinent to the state of development were posed. In that chapter Seers (1979) was quoted: "What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality?" (Seers, 1979, p 12). Additionally Seers (ibid.) argues that economic growth is a necessary

but not sufficient condition for development, in the sense of the satisfaction of human needs. Thus, for example, in Malaysia growth has been due to largely capital-intensive investments, particularly in the agricultural and manufacturing sectors; at the same time unemployment rates have increased, and for that reason the poorest class have not benefited as much as they might from the resources created. Furthermore, Seers (*ibid.*) suggests that the relationship between growth and development can vary according to the time perspective adopted and depends on where political power lies in the country. In the case of Malaysia, the Malays are politically superior, whereas the Chinese are economically superior. As a consequent, changes in non-economic or social structures are crucial to the process of development in order that equitable economic changes could be effective.

Thus far our discussion on development in Malaysia since 1971 has centred on the handling of the economy, the labour market, the unemployment rates, wage trends, patterns of household income distribution, ownership of wealth, and poverty trends in rural and urban areas - all of which indirectly determine the scale of demand or need for income maintenance and social security. Furthermore, presumably in a varied labour market, conditions of different groups encourages separate schemes for social security, and therefore a coherent national scheme appears less likely. Moreover, due to Malaysia's dependence on the global economy, particularly the centre economies, for its export of primary commodities and electronics component goods, the economy is affected by world economic booms and recessions - therefore with implications on the ability of the state to build up reserve funds for a social protection programme. Yet, a basic national social security scheme for the whole labour force is not altogether impossible provided there is a strong political commitment by the state.



## **Chapter Six**

### **CONCEPTS OF POVERTY**

#### **INTRODUCTION**

The economic system in Malaysia is marked by inequalities within itself which reflect dominant social values related to employment and wealth ownership which are in turn related to ethnic enclaves. In such a situation the question of the distribution of income and wealth is a crucial one. Chapter Five argues that attempts by the state to reduce inequality and alleviate poverty have resulted in little vertical redistribution of income and wealth.

Social security has a role to play in bringing about greater equality. Since the question of income security is directly linked to the issue of poverty, in this chapter the purpose is to comprehend the various conceptions of poverty, and discuss some approaches to measuring poverty. The analysis in this chapter will serve as a basis towards the attempt to interpret the problem of poverty in Malaysia, which will be the topic of enquiry in chapter Seven.

#### **CONCEPTS OF POVERTY**

To many people poverty simply means not having enough money to meet their needs, normally due to incomes that are low. Poverty as a concept has been defined by several scholars in different ways. Poverty has been variously equated with subsistence (Rowntree, 1901); inequality (Atkinson, 1975); or the



denial of some minimal level of health, housing, food and education (Harrington, 1962). Usually the poor are identified as those occupying the lowest level of the social pyramid. Katz (1983) refers to the poor as the dependent populations.

According to Rein (1970) poverty may be regarded as subsistence, inequality and externality. Subsistence is concerned with the minimum provision needed to maintain individual health and working capacity, inequality is concerned with the relative position of income groups while externality is concerned with the social consequences of poverty for the rest of society rather than with the needs of the poor. Thus the poverty line serves "as an index of disutility to the community of the persistence of poverty" (Rein, 1970, p 46).

Atkinson (1985, p 4) distinguishes between two rather different conceptions of poverty. One is concerned with "standards of living and the other with minimum rights to resources". He asserts that firstly "people should attain a specified level of consumption" (ibid.), and additionally "are entitled, as citizens, to a minimum income, the disposal of which is entirely up to them" (ibid.). Atkinson's reference to citizenship is deliberate because "entitlement to a minimum income is seen both as a reward for citizenship and as a pre-requisite for participation in society" (ibid.).

However, Atkinson's conceptualization of poverty poses a number of problems. Townsend & Gordon (1989, p 5) suggest that the emphasis upon consumption requirements implies the neglect of human need such as customs, obligations and participation; while the emphasis on rights implies political choice rather than scientific observation and measurement of the objective conditions of social association and participation. The work briefly reviewed certainly calls attention to the variable inclusion and exclusion of different

elements of the meaning of poverty. It is this which will be illustrated in this chapter.

### NATIONAL MINIMUM

The concept of poverty in British social legislation is often based on the notion of a "national minimum". How did that arise? It is developed partly out of the principle of "less eligibility" as endorsed by the Poor Law Commission of 1834. In their Report, the Poor Law Commissioners specified that: "The first and most essential of all conditions, a principle which we find universally admitted, even by those whose practice is at variance with it, is that (the pauper's) situation on the whole shall not be made really or apparently so eligible as the situation of the independent labourer of the lowest class" (Poor Law Report, 1834, quoted in Townsend, 1979, p 923). This is how the idea of the "minimum" in welfare originated. This level of welfare was conditional however (on readiness to work, for example). At this stage governments made a big distinction between deserving and undeserving poor.

In this twentieth century the concept of "minimum rights" was the fundamental principle in the Beveridge Report of 1942. The notion of a subsistence level was highlighted in The Plan for Social Security: "It is first and foremost a plan of insurance - of giving in return for contributions, benefits up to a subsistence level, as of right and without means test, so that individuals may build freely upon it" (Beveridge Report, 1942, Para 10). Beveridge was of the opinion that to pay more than a subsistence payment would be to discourage personal savings, and would deprive people of a necessary incentive to make appropriate provision for themselves; and furthermore because benefits were intended to be at a level sufficient to guarantee subsistence, therefore



additional means-tested benefits was not necessary. In the discussion on the principle of social security it was proposed that "in establishing a national minimum [the State] should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family" (Beveridge Report, 1942, Para 9).

To Beveridge, poverty was a significant but not an unmanageable problem. Poverty, as explained by Beveridge, was the result of "the failure to relate income earning to the size of family" (Beveridge Report, 1942, Para 11). In other words, it was unfortunate for some to have large families as low wages would deprive large families of some of the basic necessities of life.

While it was true that the Beveridge Report was a blueprint for post-war social policies, it was not primarily concerned with bringing about a vertical redistribution of wealth at all (Coates & Silburn, 1970, p 173). Provided there was full employment, Want (or poverty) would be destroyed automatically. Thus social security programmes were necessary to cover predictable unavoidable contingencies when earnings were likely to be interrupted, while a modest programme of National Assistance was necessary to provide for those who were not in employment and who were not covered, for whatever reason, by national insurance, or benefits as of right. National assistance represented a kind of safety net.

### POVERTY DATUM LINE

One impetus for a "national minimum" was the concept of a "poverty datum line" which first appeared in Charles Booth's massive work "The Life and Labour of the People of London (1889 - 1903)". Booth defined poverty as



having no surplus, which meant having a meagre income enough to live off most of the time but being unable to meet contingencies such as sickness or loss of earnings. Booth described the poor as "those who have a fairly bare income, such as 18 shillings or 21 shillings per week for the moderate family, and by the very poor as those who fall below this standard" (Booth, 1887, quoted in Simey & Simey, 1960, p 184).

Later on, in his survey of York, Rowntree (1901) further refined the poverty line concept. The common methodology used for determining the poverty line is based upon a hypothesized food budget derived from minimum nutritional requirement diets, of which the work of Seebohm Rowntree (1901) is considered to be the pioneer in the attempt towards an objective definition and measurement of poverty. Rowntree defined families whose "total earnings are insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency as being in primary poverty" (Rowntree, 1901, p 86). Based on the previous work of an American nutritionist, W.O. Atwater, Rowntree calculated the minimum requirement of nutritional needs of adults and children in a family of five. These nutritional needs were then translated into quantities of different food items and the monetary equivalent of these foods. To the expenditure on food were added certain minimum amounts for clothing, fuel and household sundries, and thus a poverty line was estimated at a level of 17 shillings and 8pence per week. Rent was excluded from the calculation as it was assumed that rent was beyond the control of the household. A family was regarded to be in poverty if its income minus rent fell short of the poverty line.

Accordingly, Rowntree laid the foundation of the concept of subsistence poverty, a measurement which came to be used as a basis for recommending

minimum social benefit rates in several countries, like the United Kingdom<sup>1</sup>, the United States and Third World countries like India, Kenya and Malaysia.

In the United States the subsistence approach adopted by the United States Social Security Administration Poverty Index is due primarily to the work of Molly Orshansky (1965). Her work was similar to that of Rowntree's in that she took as her starting point estimates of minimum food expenditure, but her calculation of the total income requirement took a different form. Based on a basic nutritional standard, consistent with food preferences of the poor groups, recommended by the National Research Council, and using data derived from consumer expenditure surveys, Orshansky used the actual percentage of income spent on food, which at the time represented thirty-three percent or one-third of the total spent by families of three or more persons as the basis of applying a multiplier. The poverty line was derived by multiplying the cost of the basic diet by a factor of three, or the reciprocal of the proportion of total income spent on food.

### PROBLEMS OF MINIMUM SUBSISTENCE

Regardless of the scholarly efforts of Rowntree and Orshansky, the food budget method of determining the poverty income level poses several problems. There are problems of nutrients, the foodstuffs to incorporate those nutrients, and the cost of purchasing those foodstuffs. The choice of food items and other items of necessities cannot be independent either of personal judgement of the relevant social investigators or arbitrary selection of some other kind. The basic aim is to secure a minimally adequate nutrition at the

---

1. In the United Kingdom the idea of a poverty line was particularly influential because it was incorporated into the social legislation; but benefits paid out need not conform to the recommended poverty line level, for example, the post-war legislation set the standard of national insurance benefits lower than Beveridge's extremely low limit.



lowest cost, without taking into consideration diets which are conventional to local communities. Moreover, the food index is not redefined periodically, thereby neglecting changing customs and needs.

By defining a minimum adequate diet it implies that families are restricted in the choice of food purchases, and therefore "the lower the level of cost, the more restricted the kinds and qualities of food must be and the more the skill in marketing and food preparation that is required" (Orshansky, 1965, p 5). In reality those living in poverty, more often than not, do not possess the knowledge about nutrition, or the skills in marketing and food preparation as demanded by the minimum adequate diet plan. Moreover the food budget method assumes food costs as a fixed percentage of total budget necessary for a decent living. Although nutritional requirements vary according to levels and patterns of living and dietary habits, the food budget method allows no consideration for differences of food requirements between different sizes or geographic locations of families.

Ideally in the food budget method the choice of food items should be based on an ideal diet or on actual consumption behaviour. An ideal diet involves applying dietary standards for caloric and protein requirements to the locally available foodstuffs. Allowances are made for local family size, age composition, and if possible for average body weight and climatic differences. The representative price levels would have to be found in order to work out the cost in money terms. Estimates on actual consumption behaviour could be derived from household budget surveys that allow for measures on the caloric and protein content of the actual consumption baskets of different income groups. The family expenditure level which coincides with the recommended minimum dietary intake could then be singled out as the poverty income level.



## SUBSISTENCE POVERTY

Another problem in this approach is the preoccupation with physical standards. In Townsend's survey (1979) subsistence was described as "not having enough to feed children or go to work on; having nothing to wear or threadbare clothing; and not having the basic necessities of life" (Townsend, 1979, p 238). Thus, in Townsend's opinion, "the conception of a necessary minimum income lurked in these accounts and the emphasis was primarily upon the physical necessities of food, clothing and shelter" (ibid.).

The subsistence definition of poverty derives from that formulated by Rowntree in his famous studies in York in the years 1899, 1936 and 1950<sup>2</sup>. The main elements in his definition were income and food consumption. As mentioned earlier in this chapter Rowntree assumed a family would be considered to be living in poverty if its total earnings were insufficient for the maintenance of physical efficiency. However, Rowntree recognised that the definition of subsistence could change over time. In his surveys of 1936 and 1950 he provided a longer list of the "minimum necessities", thus allowing for cultural and historical changes. Some, but only small, concessions were made to the social as distinct from physical needs of individuals. He distinguished between primary and secondary poverty. Families with incomes below the poverty line would always be undernourished, but those with incomes above the line could get by if they manage their money carefully. Primary poverty, where minimum nutritional standards were not met because of an insufficiency of resources, was caused by inadequate income. On the other hand, secondary poverty occurred when sufficient resources were not utilised rationally in ways

---

2. *Poverty: A Study of Town Life*, Macmillan, 1901; *Poverty and Progress*, Longmans, 1941; *Poverty and the Welfare State* (with G.R.Lavers), Longmans, 1951.

most consistent with healthy living due to the irrational behaviour and unwise spending patterns of the poor.

Jackson (1972) refines the basic assumptions of Rowntree's subsistence poverty. He drew attention to the importance of needs in the definition of poverty. According to Jackson: "When important needs are not met, individuals and families are said to be in poverty because the condition of their lives is not considered satisfactory" (Jackson, 1972, p 13). To Jackson (ibid.) "adequate social functioning" is essential in the fulfilment of needs. So as to function adequately in contemporary society, not only an individual's nutritional needs but also his needs for education, housing, employment and security must be fulfilled in order for him to be able to maintain a family. If needs were not adequately met deprivation would arise. Deprivation in one sphere causes deprivation in another; for example, poor health causes unemployment and income security. Social and cultural variables are therefore firmly recognised in Jackson's conception of poverty.

As an economist, however, Jackson (1972) further views poverty within the framework of economic growth. He believes that "economic growth provides no guarantee that poverty will disappear. As the economy grows, it grows in complexity and sophistication and so makes greater demands on the individual" (Jackson, 1972, p 18). This implies that the surplus produced by economic growth is not necessarily used to alleviate poverty or increase the welfare of the poor. Poverty is caused by society's failure to allocate resources equitably. Malaysia is a case in point. As discussed in the chapter Five, social discrepancies still occur, despite deliberate attempts by the state in reducing poverty and social inequality.



## POVERTY DATUM LINE: SOME THIRD WORLD MODELS

Several Third World countries use the poverty datum line as the basis of interpreting poverty. India is an example of a country where there has been a long established tradition of academic enquiries on the problem of poverty. Poverty in India was first discussed by Dadabhai Naoroji in 1876<sup>3</sup>, in which he highlighted the magnitude of poverty in the sub-continent and claimed that the external economic drain theory followed by the British was responsible for the misery and poverty of the Indian people.

In independent India, a Working Group on poverty line was first set up in 1962 (Gaur, 1988, p 3). The Group aimed to establish a nationally desirable minimum level of consumption expenditure. Expenditure on health and education was excluded, both of which were expected to be provided by the state. An element of subsidy in urban housing was included after deducting 10 percent as the rent element payable from the proposed national minimum of 100 Rupees per month. This figure of national minimum was calculated following the recommendations on a standard balanced diet devised by the Nutritional Advisory Committee of the Indian Council of Medical Research. Nutritional needs were not distinguished between urban and rural areas.

Also, the notion of minimum needs was incorporated in Indian Development Plans (Gaur, 1988, p 22). For example, the National Programme of Minimum Needs, initiated during the Fifth Five Year Plan (1974 - 79) period, attempted to provide a minimum level of social consumption of different areas and sections of the community by establishing a network of certain essential services.

---

3. Naoroji, D. (1988), *Poverty in India*, London: Winchworth Foulger & Co., The Aldine Press.



In South Africa the poverty datum line was introduced during the Second World War as a measure of the extent of poverty in the rapidly growing slums of western Cape (Wilson and Ramphela, 1989, p 16). In the 1970s the poverty datum line was further refined and modified, due to the reemergence of trade unions as a force for change and therefore guide-lines were needed in the negotiation with management on issues of minimum wages. Subsequently various interpretations of what ought to be included in the definitions of minimum levels were developed, as shown in Table 6.1, for average households of five to six persons. It was found out that cash required for subsistence in rural areas was 83 percent of the requirement in urban areas. For instance, in 1983/4 in Transkei the Household Subsistence level was R296 for urban households compared to R246 for rural households (Wilson and Ramphela, 1989, p 17).

Kenya also has a tradition of using the poverty line as a basis for measuring the extent of poverty within its population. However different poverty lines are used for urban and rural areas. Based on 1974 prices the poverty level for a rural smallholder household was 2000 Kenyan shillings a year, while a higher poverty line, roughly twice as much, was applied for urban households (Collier and Lal, 1986, p 78). In 1974 the incidence of absolute poverty was as high as 22.4 percent in smallholder households in Central province, compared to approximately 3 percent in Nairobi (Collier and Lal, 1986, p 80).

Thus far, this analysis has shown that subsistence definitions of poverty are primarily concerned with ensuring that people have enough incomes to pay for basic requirements, plus some expenditure on minimum requirements for other basic necessities such as clothing, housing and a few sundries. Undoubtedly, as

**Table 6.1**

**South Africa, Levels of Poverty: Definitions**

<u>Titles</u>	<u>Coverage</u>
Poverty Datum Line (PDL)	Food, clothing, fuel/lighting, washing/cleaning, rent and transport
Minimum Living Level (MLL)	As above + tax, medical expenses, education, and household equipment replacement
Supplementary Living Level (SLL)	MLL + more for each item + recreation/entertainment, personal care, pension, medical and burial contributions. Approximately MLL + 30%
Household Subsistence Level (HSL)	As for PDL
Household Effective Level (HEL)	HSL + 50%

Source: Wilson & Ramphela (1989, p 17) [adapted]

George (1988) points out, "the prevalent national economic standards affect notions of what subsistence is, for poverty definitions tend to become more generous, though still of subsistence nature as the national economy grows" (George, 1988, pp 84-85). Hence poverty definitions for various countries tend to vary in the degree of generosity such as in the choice of food and non-food items deemed necessary for health and physical survival of the populations.

### BASIC NEEDS

An alternative way of determining the level of poverty, which received world wide support at the 1976 World Employment Conference of the International Labour Office, is the basic needs approach. This is a modification of the food budget method, and as its name implies, it is concerned with primary needs of individuals and communities. The ILO Conference adopted a Programme of Action which included a comprehensive and wide-ranging set of measures for the implementation of a basic needs strategy.

The concept of basic needs includes two elements: "First, they include certain minimum requirements of a family for private consumption: adequate food, shelter and clothing, as well as certain household equipment and furniture. Second, they include essential services provided by and for the community at large, such as safe drinking water, sanitation, public transport and health facilities" (ILO, 1977, p 32). Hence the ILO sees the basic needs approach as an ideal solution in their assault on absolute poverty. Still, the second part of the definition is different from the earlier definition and begs a lot of questions.



The ILO (1977) recommends several approaches in which the basic needs of the poor, and a redistribution of income and growth could be achieved. Key emphasis is placed on the combination of reform of price systems; redistribution through consumption transfers which benefit the poor, for instance in education and rural infrastructure; and capital stock transfers, like land reform - all of which envisages a much broader and more structured interpretation of the causes, and therefore the meaning of poverty. If basic needs of the poor are to be adequately provided, strategic changes are required in the content, organization and delivery of important public services such as education, health, housing, water supply and environmental sanitation.

In exploring some transitional problems while the economy is restructured to meet basic needs, the ILO (1977) mentions problems such as the temporary fall of production in some sectors and rapid increase in the demand for essential goods and services. Precisely because political difficulties in implementing the basic needs strategy could not be avoided, these constraints "necessitate the adoption of a selective approach in using policy instruments" (ILO, 1977, p. 66). The importance of organizing poverty groups is emphasised because "agrarian reform is practicable only if political forces with more strength than those of the landlords can be mobilised" (ILO, 1977, p. 67). This last quotation contradicts with the aim of land reform mentioned in the last paragraph, which does not necessarily distribute land to the landless poor, but instead perpetuates the continued existence of landlords and agricultural wage labour, and therefore differentiation of political power between these two groups.

The basic needs approach reflects the ILO's concern for the eradication of absolute poverty through the emphasis on redistribution and employment

specially because "redistribution from growth only yielded very meagre results" (Hicks & Streeten, 1979, p 568). Above all, the basic needs approach has more political appeal compared with the concept of redistribution with growth, and therefore would be more easily endorsed by politicians.

Besides, there is the view that the basic needs approach is "neither a coherent theory nor a methodologically clearly worked out development programme" (Hoogvelt, 1982, p 98) - instead Hoogvelt (ibid.) believes it is a loosely knit set of ideas and common themes. On the other hand, Ghai (1978, p 16) believes that it is the eclectic nature of the basic needs approach which have been an important factor in the quick and widespread acceptance of the basic needs approach.

While it is true that the basic needs approach embodies a consumer-oriented outlook, which is synonymous with social welfarism in conditions of underdevelopment, and therefore it is biased against economic growth, Ghai (1978, p 17) contends that basic needs could not be met without substantial and sustained economic growth. What is important is not so much a given rate of growth as the pattern and character of that growth.

Still, there is reason to believe the basic needs approach is subjective in nature. Those goods which are believed to constitute a sufficient standard of living are determined by policy-makers, planners and economists, rather than justified by objective tests of the satisfaction of need. Besides, the poor, more often than not, prefer money transfers rather than transfers in-kind.

The ILO neglects industrial development as a strategy in poverty alleviation, perhaps because industrialisation in most developing countries had involved capital intensive foreign imported plant and machinery, thus creating little



employment as well as generating income inequality. Instead, what is advocated is an "increased investment in the traditional agricultural and informal urban sectors and the removal of obstacles to their development, especially by reducing inequality of access to production services and assets" (ILO, 1977, p 68). This implies that a greater utilisation of local materials, local markets and local skills would create greater employment opportunities; and in the long-run the economy would benefit through the "trickle-up" effects of greater productivity and purchasing power of the poor.

### BASIC NEEDS APPROACH: SOME THIRD WORLD EXPERIENCES

In contrast to the ILO's belief in industrialisation and poverty alleviation, Singh (1979) argues that in order to meet the basic needs of the poor in the Third World on a sustainable basis, it is necessary to transform its productive structures. In this transformation industrial development must play a central role, and that a properly conceived basic needs strategy should positively aid Third World industrial development. He cites the case of China as a country which had successfully pioneered the basic needs approach in its development policies several years ahead of the ILO 1976 World Employment Conference

China had been successful in meeting the basic needs of its population and raising their standard of living. Of particular interest is the provision of public health services to the whole population. The differences between standards of living of various sectors of the population is likely to be smaller in China than anywhere else. Special attention was paid to reduce inequalities in the distribution of income, consumption and wealth while at the same time making rapid progress in the development of modern industries. Industrial development is closely integrated with agricultural development; therefore industries give priority to the needs of agriculture, like increasing the use of



farm machinery and chemical fertilizers, hence rural electrification also becomes a priority. As an illustration of industrial development, the number of tractors produced increased from 1500 in 1959 to 33,000 in 1965, 73,000 in 1971 and 400,000 in 1978. (Singh, 1979, pp 588-593).

The Chinese example clearly shows that political and ideological commitment is a priority concern in any poverty alleviation programme. Measures to reduce poverty are only feasible if there is a general acceptance of the aim of reducing income inequality and meeting the essential needs of the poorest sections.

The Tanzanian approach to development is another case where progress in meeting the basic needs of the population has been achieved, although critics have pointed out this may have been at the expense of long-term economic growth (Singh, 1979, p 601). Although there were temporary set-backs to the economy during the mid-1970s as a consequence of serious droughts and sharply adverse movements in the terms of trade, over the period from 1964 to 1974 there was significant structural changes; industry expanded at a rate of 10 percent a year (ibid.). Tanzania had planned a long-term industrial strategy, which specified the kind of structural transformation the country aspires to achieve. The basic goal is to raise the contribution of industry to gross domestic product to 20 percent by 1995; and a further objective is that by that date 60 percent of industrial output should consist of intermediate and capital goods and only 40 percent of consumer goods (ibid.). As a rule, in meeting the basic needs of the population the Tanzanian state is using the political and fiscal measures at its disposal to ensure that inequalities in income distribution do not increase (ibid.).

Accordingly, this study maintains that the Tanzanian approach to development, which was specifically mentioned in chapter Two as a model of Wallerstein's

(1974) development strategy of self-reliance, is in a way consistent with Seers' assertion that: "A country where economic growth is slow and negligible may be busy reshaping its political institutions so that, when growth comes, it will mean development" (Seers, 1979, p 13). Thus even if the rate of growth is slow the satisfaction of basic needs and the reorientation of social and political institutions are crucial prerequisites of development.

In contrast to China and Tanzania, Sri Lanka has not been successful in the application of a basic needs strategy, and has failed to develop production in line with distribution. Overall growth has been slow and insufficient jobs have been created. The poor had not been guaranteed access to productive assets; while rural policies and land reform have been relatively unsuccessful. For example, the distributive effects of large-scale irrigation and land-development projects intensified rather than mitigated income inequalities (Richards & Gooneratne, 1980, pp 163-164).

From the above examples of the experiences of some Third World countries in implementing the basic needs approach in their development programmes, it is clear that in general the concept of basic needs should be placed within the context of a specific country's overall economic and social development. In the words of George (1988, p 156) "the calculations of basic needs satisfaction inevitably reflects the living standards of a country" Unlike the trickle-down redistribution with growth approach with its emphasis on income, which was popular in the 1960s and 1970s, the basic needs approach identifies those sectors which should receive preferential treatment in the distribution of essential elements in satisfying human needs which are supplied outside the market system. And, of course, development in some countries occurs in a way which is actually multiplying the basic needs for which alternative action is required to ameliorate.



## RELATIVE POVERTY

The relative approach of measuring poverty interprets poverty in relation to the prevailing living standards of the society, recognising explicitly the interdependence between the poverty line and the entire distribution of income. This wholly accepts the "structured" nature of poverty. We shall discuss two types of relative measures of poverty, namely, arbitrary percentages of population and relative deprivation.

### ARBITRARY PERCENTAGES OF POPULATION

This method of determining poverty focuses on a bottom fraction of the population, for example, ten, twenty, thirty or forty percent. The relative poverty line is that which identifies the poor as the lowest "x" percent in the distribution of income curve. As the percentages of the population to be identified as the poor are arbitrarily chosen, in developing countries the figure of forty percent appears to be a popular cut-off point. Anand (1983, p 113n) attributes the popularity of this figure as originating from Robert McNamara's plea, in his address to the Board of Governors of the World Bank in 1972, that special policies be initiated to include the growth of the lowest forty percent of the population in developing countries.

There are at least three points that refute the usefulness of this method. First, it prejudices the extent of poverty by postulating that it is "x" percent of the population by definition. Second, this method implies that poverty could never be eradicated, there would always be the bottom "x" percent who are invoked



to justify, objectively or scientifically, the selection of the percentage. Thirdly this approach gives no reason why the level of poverty should be presumed to be the same in countries which might be far more unequal or far more poorer than other countries. For the reason of the limitations mentioned above this method is not a practical approach of determining the level of poverty

### RELATIVE DEPRIVATION

W.G.Runciman (1966) initiated the first systematic use of the concept of relative deprivation in the social sciences. Runciman's (ibid.) work applied the concept of relative deprivation to contemporary problems such as wage bargaining and thus shows the relevance of the concept in the analysis of political behaviour. However., this work was subjective, and derived from Stouffer's work on the United States Army<sup>4</sup>.

In the literature on poverty in the United Kingdom, Professor Townsend is the main exponent of the objective concept of deprivation. In formulating an alternative measurement of poverty, Townsend (1979) constructs a sociological definition of poverty and asserts that:

Poverty can be defined objectively and applied consistently only in terms of the concept of relative deprivation.....  
Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities.

[Townsend, 1979, p 31]

---

4. Stouffer, S.A., et al (1949), *The American Soldier*, Princeton.

Concisely, Townsend (1979) views inadequate social functioning as a guide to poverty. Hence he constructs a provisional deprivation index based on a number of household and social characteristics reflecting social functioning, in which he includes some sixty indicators of the style of living of the population, covering diet, clothing, housing, environment, conditions of work, recreation, education, health and social relations. Other indicators of poverty include the lack of cooked breakfasts, of birthday parties, of holidays, and of the habit of dining out (Townsend, 1979, App. 10). The provisional deprivation index is then compared with household income when there is a reduction of resources accompanied by a disproportionate deprivation.

A key element stressed by Townsend (1979) is participation, which is a psychological and social necessity (by virtue of individuals having social roles and obligations as well as being involved in relationship within social groups, including small families and large communities). This is more than previous "materialist" conceptions inherent in the food budget approach to poverty. Due to a lack of resources, individuals and groups may be deprived of the chance to fully participate in society and therefore are alienated from those who are not poor. Townsend contends that there is "a systematic relationship between deprivation and level of resources" (Townsend, 1979, p 915), meaning that a lack of resources leads to inability to fully participate in social life and below a certain level of resources people would have to contract out of ordinary forms of social membership. Thus Townsend's objective concept of relative deprivation measures not only poverty but inequality which is defined in terms of differences in styles of living. Clearly in Townsend's view poverty results from inequality in society.



Nevertheless, Townsend (1979, pp 50-51) reminds us that the concept of relativity is governed by several factors. The first of these is custom. Certain food stuffs, for example, have been accepted as necessities of life. Some aspects of consumption are particularly "social" in function. In the United Kingdom serving one's guest a cup of tea is seen as a form of binding social relationship; while in other societies a cup of coffee performs the same function. Secondly, relativity is influenced by the change of need of certain products through advertisement and imitation by friends and neighbours. The current increasing popularity of items ranging from foodstuffs to cosmetics labelled as "organic" or "green" or "environment friendly" is an example; although these products may cost more, people's buying habits are influenced by relevant interest and consumer groups. Finally, a change in fashion and social convention may determine the need for the reappraisal of the type and style of products needed by an individual or family, of which clothing is a well-known example.

Furthermore, the construction of a relative deprivation index explicitly relates poverty to multiple deprivation. People are not only poor but they live in poor neighbourhoods that do not have adequate schools and therefore children of poor families suffer from educational deprivation. Coates and Silburn (1970) remind us that "these different types of deprivation mesh into one another, to create for those who must endure them a total social situation shot through and through by one level of want after another" (Coates and Silburn, 1970, p 38). In their study of St. Ann's in Nottingham, Coates and Silburn show different forms of deprivation that "relate to one another, feed off one another, sustain and help to perpetuate one another" (ibid.).



One problem of applying the relative deprivation index is that it is not easy to quantify a poverty line. Townsend (1979, p 271) himself identifies four measurement problems on the relationship between income and deprivation. Problems arise in the attempt to define the income unit and the unit of deprivation; to measure the level and the type of resources; and to measure the level and type of deprivation. Obviously, no matter how equal the distribution becomes, people are not always satisfied and would desire something another person has and are thus relatively deprived. Thus although a direct and significant correlation between income and deprivation, people on the same income continue to display variations in both kind and degree of deprivation and there is no clear delineation between the deprived and the non-deprived. Townsend (1979) has attempted to show that there is in fact a "threshold" of income below which people are disproportionately deprived, that is, relative to their income, and that this can be designated a "poverty line". But because of the problems of measuring both "income" and "multiple deprivation" in sufficiently exact ways, the outcome remains a subject of scientific controversy.

In measuring multiple deprivation problems may arise when we try to apply operationally the concept of "style of living". What actually constitutes the style of living customary to the average family might be subjectively decided by the social investigator rather than devised from hundreds of "objective" observations - so that we can count forms and levels of deprivation. In relation to this, Townsend's provisional index of deprivation is difficult to interpret. It reflects not only the absence of opportunity for efficient social functioning, but also reflects different preferences for the form of social functioning adopted by different families. One critic alleges that Townsend's findings "have no relevance for policy" (Hemming, 1984, p 44). Unquestionably, the setting of a relative standard is operationally difficult.

Sen, a neo-classical economist, is critical of Townsend's concept of relative deprivation. He argues that poverty must be seen to be primarily in an absolute notion, and that the contrast between absolute and relative features of poverty has often been confused (Sen, 1983). To Sen, poverty was the failure to have certain minimum capabilities and claimed that "absolute deprivation in terms of a person's capabilities relates to relative deprivation in terms of commodities, incomes and resources" (Sen, 1983, p 153). He contends the problem could be overcome "by using efficiency-income units reflecting command over capabilities rather than command over goods and services" (Sen, 1983, p 168). Implicit in Sen's definition of poverty is the concept of minimal income at subsistence levels.

In a reply to Sen's (1983) criticism, Townsend (1985) argued that Sen's conception of poverty is "an underestimation of the importance of needs other than for food" (Townsend, 1985, p 664). This has serious implications for social policy as it fails to distinguish between social, including State, and scientific or objective definitions of poverty.

### SUMMARY AND CONCLUDING REMARKS

Several conceptions of poverty have been discussed in this chapter. On the whole, the concept of absolute poverty appears to have considerable influence on official definitions of poverty in several countries. Furthermore this concept seems more relevant for developing countries, where absolute poverty self-evidently abounds. On the other hand, the relative deprivation concept of poverty, identified with the inequality approach to the problem of poverty, calls attention to major differences in living standards and implies that the



transfer of resources from the rich to the poor can alleviate poverty in most societies, appears to be more relevant for developed countries. But with the development of international agencies and markets, and the growth in prosperity of elites in poor societies as well as the development of marginalised poor in rich societies, the distinction is becoming less appropriate, and scientists are beginning to recognise the need for a common international definition - so that appropriate quantitative comparisons can be made.

Still, in drawing up the poverty line policy-makers and planners should consider the inter-dependence between the standard of living and resources. Hence the use of a combination of relative and absolute measures of poverty may be used in determining the poverty line. The following paragraph gives a summary of suggestions by some scholars of poverty on how the poverty line should be measured.

Atkinson (1975) suggests we define the poverty line as half the average income, and based on this suggestion Anand (1983) uses half the average household per capita income. Fuchs (1967) suggests it should be half the median income. Townsend (1979) suggests the mean is more appropriate than the median income because it takes account of the aggregate resources available in a society and not merely the "middle" income in ranking rich and poor. These income-related measures are now used extensively by international agencies like the European Community and the Organization for Economic and Cultural Development (OECD). Conversely, the World Bank (Hasan, 1978), in its work in Third World countries, uses national household expenditure surveys as basic information sources, and poverty lines are determined by per capita income. In developing countries consumption expenditure, which determines the standard of living of an individual, is not always met out of current income as it may also come from assets, debts and savings.



In summary this chapter concludes that practical measures of poverty fall into three categories: i) income-related relative poverty, ii) subsistence commodities (food, fuel, clothing) poverty, and iii) material and social needs poverty or relative deprivation. In conclusion, whatever measure we use in determining poverty, we should take cognisance that poverty is not merely a question of money, food, housing and clothing. It is also a question of human dignity and social as well as cultural fulfilment.

## Chapter Seven

### THEORIES OF POVERTY IN MALAYSIA

#### INTRODUCTION

In Chapter Six we focused our discussion on the various conceptions of poverty as advanced by several scholars at the international level. In this chapter our main aim is to comprehend the various conceptions of poverty specific to the situation in Malaysia. We shall limit our discussion within two broad theoretical framework, namely the structural and generic theories of poverty.

#### CONCEPTIONS OF POVERTY IN MALAYSIA

The first recorded conceptualisation of poverty in Malaysia may be that developed by a well-known literary figure, Za'ba, whose article entitled "The Poverty of the Malays" in the Malay Mail of December 1st, 1923. He wrote: "The Malays as whole, are a particularly poor people Poverty is their most outstanding characteristic and their greatest handicap" (Malay Mail, 1.12.1923; cited in Aziz, 1975, p.3). Although Za'ba made no attempts at measuring or defining poverty, his conception of poverty embodied a distinction between economic and non-economic poverty of the Malays. According to Za'ba: "The word poverty as applied to them [the Malays] does

not merely mean destitution of wealth or riches.....They are also poor in all other equipment which can lead to success and greatness" (ibid.).

Recognizing that underdevelopment and poverty are relative concepts, Za'ba further asserted: "Potentially, they possess such qualities as much as do any other people. But the actualised part of this potentiality is still too poor to bear comparison with what we find in other progressive peoples in the country..... Their country is rich and abundantly supplied with natural resources - but it not they who benefit thereby" (ibid.). Za'ba emphasised that although the country had prospered greatly under the British, it was "not the Malays who have profited there from" (ibid.). He believed that the lack of cooperative organizations was a cause of economic backwardness of the Malays.

While other statements might have been traced, these remarks by a well-known Malay intellectual raise three issues which have continued to be prominent in Malaysian accounts of social conditions, namely, (i) exploitation, or impoverishment caused by colonisation; (ii) lack of cooperative economic institutions; and (iii) lack of opportunities (especially educational opportunities) institutionalised for the young, particularly those of the lower income group<sup>1</sup>.

---

1. As an illustration, in 1974 the share of higher education subsidies received by different income groups in Malaysia was as follows:

<u>Income Group</u>	<u>% of Share</u>
Lowest 40%	10
Middle 40%	38
Highest 20%	52

Source: World Bank, 1988, Tab. 6.2, p.136 (adapted)



## STRUCTURAL-INSTITUTIONAL ANALYSIS OF POVERTY

Subsequent to Za'ba's exposition of Malay poverty, three decades were to pass by before a systematic analysis of poverty in Malaysia was initiated by Ungku Aziz. Aziz (1956) analysed occupational structure and income levels of the Malay community and concluded that Malays were largely employed in low-paying occupations like farming and fishing. Hence their mean income was far below the average of other ethnic groups.

In his subsequent writings (1964, 1965), Aziz essentially discussed absolute and relative poverty within the Malaysian context. His analyses were based on a structural-institutional perspective<sup>2</sup>. Also, he discussed three main socio-economic indicators of poverty, namely, (i) level of nutrition and protein intake; (ii) infant mortality and life expectancy; (iii) the sarong index<sup>3</sup>.

---

2. The structural-institutional analysis of poverty was first posited by Fei and Ranis (1967) and refined by Paauw and Fei (1973). Based on the notion of economic dualism, this approach views poverty as essentially the problem of the traditional and backward agricultural sector which had been consistently neglected as a result of discriminatory resource allocation policies during colonial times (which, in the context of Malaysia, has already been discussed in Chapter 3). On the one hand, there existed a triangular colonial pattern of import-export flows of the modern sector and a small urban industrial sector linked with the international economy; while on the other hand, the traditional sector, due to its largely subsistence nature, was presumed to be detached from the modern sector. As a result of the existence of considerable foreign control in the economy, especially in the production of raw materials for export, what occurred was a net outflow of surplus to the colonial government.

3. Aziz believed that the extent of poverty among Malays in any kampong can be measured by the sarong index. This was a rough rule-of-thumb which gave practical means of distinguishing how poor some communities were. This index is derived by taking the number of sarongs in a household and dividing this by the number of persons above the age of one living in the household, thus giving the ratio of sarongs per capita. Any figure below one sarong per capita would indicate a condition of extreme poverty (Aziz, 1964, pp.79-80).

Aziz, however, made no attempt to define a poverty line income objectively or subjectively. His main concern was not to measure or quantify poverty but to explain the likely factors contributing to rural deprivation of poverty and the policies needed to redress them.

Aziz asserts there are three basic causes of poverty, namely, "neglect, low productivity and exploitation" (Aziz, 1964, p.80). He claims that the roots of rural poverty lay in the colonial heritage, when colonial administrators passed various laws for the benefit of European firms engaged in the primary production sector, thus promoting the modern capitalist enclave<sup>4</sup>. Aziz blames the urban bias in the development process deprived the rural population of the modern socio-economic facilities. He writes:

"One of the most notable features of the colonial administration was its neglect of the rural areas. Whether by intention or otherwise, the main effect of this neglect was the fossilisation of the rural people, most of whom were Malays. They were left in the Malay Reservations. They were encouraged to cultivate the crop that gave the lowest income: padi. And they were given an education that qualified them for no particular occupation since it was confined solely to primary education in the Malay language."

[Aziz, 1964, p.81]

Thus Malays were left out of the colonial economic development. As we have mentioned in Chapter Three the colonial administration deliberately followed an economic system which segregated the native Malays from the capitalist mode of production which was dominated by European firms. The production of raw materials for export at least cost was sustained largely by immigrant labour from China and South India.

Aziz (1956) alleges that low productivity is linked to several interrelated

4. Please refer to Chapter 3 for an account of colonial economic history in Peninsula Malaysia.



factors such as lacking modern agricultural tools, and under-utilization of labour due to uneconomic-sized holdings. Furthermore, the low productivity is also linked to poor health due to inadequate intake of proteins (Aziz, 1965).

Above all, Aziz (1964) believes that it is the institutional factor, exploitation, which plays a central role in the problem of rural poverty. The exploitation of the Malay peasants by non-Malay capitalists is explained by his "Monopoly-Monopsony" (M-M) system. With the absence of banking and other financial facilities in the rural areas, it was difficult for the rural people to obtain credits in order to improve production and marketing. Aziz (1964) illustrates the exploitation of the peasants by middlemen in several forms such as:

"Liquid capital in the form of money is used for money-lending which not only earns high rates of interest but also creates obligations on the part of rural workers to deliver their produce to the trader. It may even be used to oblige the worker to provide cheap labour.

Intermediate capital in the form of advances of seed, fertilisers, livestock or fuel is used to create obligations which strongly reinforce the M-M system.

Permanent capital items like processing facilities, storage buildings and transport facilities discourage outsiders from attempting to break into the market."

[Aziz, 1964, p.84).

Consequently, rural poverty manifests itself in extremely high rural indebtedness, fragmentation and chronic tenancy which reinforces the low nutrition, low education, low productivity and low income of rural people in a vicious circle of poverty (Aziz, 1964).

Aziz (1975) further asserts "poverty has no racial barriers although rural poverty was mainly a Malay problem because the Malays made up the majority of the rural people and 90 percent of the Malays were rural people" (Aziz, 1975, p.23). However, Aziz recognised that, through the various five-year



development programmes "neglect has been well taken care of by objectives to provide electric power, transportation facilities, communication services, etc." (Aziz, 1975, p.28) in the rural areas.

Aziz postulates that the key to the eradication of rural Malay poverty lies in the elimination of exploitation by middlemen, whose function, essential though to the rural people as a source of credit marketing, need to be replaced by appropriate rural development agencies. Aziz also suggests the need for changes in attitude among Malays themselves (Aziz, 1964; 1965; 1975).

From our foregoing discussion it is clear that Aziz's theory of poverty focuses mainly on the notion of economic dualism and the neglect of the traditional rural sector. Such focus was motivated partly by the need to redress the bias in colonial resource allocation policy, and partly by the serious magnitude of the problem of rural poverty<sup>5</sup>. However, there was no analysis of the relationship between the traditional and the modern sectors and the link between the domestic and the external economies. Still, the structural-institutional approach to the analysis of rural poverty has made a valuable contribution in the identification of the poor and in tracing the basic causes of rural poverty, thereby highlighting the possible areas where state efforts could be intensified so as to alleviate poverty.

---

5. As a case in point, in 1970 the incidence of poverty in rural areas was 59% compared with 21% for urban areas and 49% for the whole of Peninsula Malaysia (5MP, Table 3-1., p.86).

## GENERIC THEORY OF POVERTY

A generic theory of poverty specific to the situation in Malaysia was first expounded by Kamal Salih (1977), which focuses on the explanation of "persistent poverty and the processes which perpetuate it" (1977, p.23). Salih further demonstrates the need for an expanded theory or generic theory of poverty, which is germane to both rural and urban areas, and argues that "we must try to establish new categories and conceptualizations, or at least to rearrange old ones into new configurations which may provide insight into the real structure of contemporary poverty in Malaysia" (ibid.).

Salih further drew attention to the fact that Aziz's (1956; 1964; 1965) explanation of poverty was restricted to the rural dimensions of poverty and confined by a narrow focus on exploitation of Malay farmers, fishermen and rubber smallholders by non-Malay middlemen. Thus Salih contends that Aziz's theory "tended to overlook wider processes involved in the creation and distribution (in political economy terms, the expropriation) of economic surplus, ignoring the role of the foreign sector....as well as that of elites and other dominant peasants in Malay rural society itself" (Salih, 1977, p. 27).

The wider processes referred to by Salih (1977) are the structure of the rural economy and its socio-political correlates and the relationship between the



external economy and the rural economy, and cites Syed Husin Ali's thesis (1972)<sup>6</sup> which links rural poverty to the process of land concentration.

While agreeing with Aziz on the existence of the M-M system of exploitation, Salih (1977) suggests that the forces underlying the landlord-peasant relationship is more crucial to the explanation of persistent poverty. Arguing on the interaction between the traditional rural sector and the modern sector, which is linked to the international economy, he asserts that poverty within sub-groups in the economy "is the result of the general impoverishment of the entire economy due to its role in the international division of labour and the impact of accumulation on a world scale" (Salih, 1977, p.29). This view is analogous to Frank's theory of underdevelopment which we discussed in Chapter Two.

Salih (1977, p.32) argues against the notion of a dualistic model of high and low productivity sectors. Instead, he postulates a five-sector economy according to their involvement in the international economy. The rural sector is divided into three sub-sectors, namely, the primary export, peasant export and peasant food or subsistence sub-sectors; while the urban sector is divided into two subsectors, namely, the urban formal and the urban informal sub-sectors. Within each sector there exist two classes of actors, namely, landlord/capitalist and peasants in the rural sector, and capitalist/landlords and workers in the urban sector. Thus one may develop a simple model of the

---

6. S.H. Ali's thesis is that with the supply of land remaining constant, and land and technological development lagging way behind rapid population increases, a process of accumulation and dispossession are linked in a zero-sum situation which results in a high rate of landlessness and poverty. He further postulates that the process of accumulation and dispossession are embedded in the feudal structure of the rural economy, a vertical system of patron-client structures in which peasants are linked to a more powerful member of the community, such as landlord, money-lender, a local political figure, a member of the aristocracy or government functionary, for their security (S.H. Ali, 1972).



extraction of surplus in an underdeveloped country. This finer conceptualization allows us to treat fishermen, rubber smallholders/plantation workers, padi farmers and urban informal sector workers as the main poverty groups, regardless of race, and the foreign/local industrialists, merchants and the professions as the richer class. On the whole, therefore, Salih's approach represents a more sophisticated "structural" approach - expressed in terms of the determining elements of the economy.

Poverty is also caused by "inequality of opportunities" (Snodgrass, 1980, p.126), which is the consequence of unequal treatment originating in the official discriminatory policies of the British colonial administration. Rural Malays who were left out of the development process, unlike the urban Chinese, did not have the opportunity to enjoy the benefits of economic development, or gain access to education, health and other social services. As Ahluwalia (1974) alleges, the limitations of access "impose constraints on the ability to raise production in the poorer groups" (op. cit., p.26). This emphasis on "opportunities" shifts the emphasis of causal analysis from the exploitative and discriminatory effects of market institutions to uneven means of access (and inadequate skills) of individuals to the system.

While it is true that after Malaysia gained its independence there has been substantial expansion in the social sector programmes, particularly in education, health, housing, employment and social services, the structure of these services (which are mainly based on models imported from the West) has

not changed considerably since colonial days. The structure of service delivery and access tend to be urban -biased<sup>7</sup>.

Thus to Salih the question of equitable access and opportunities is crucial, in the reduction of poverty. Hence Salih (1977) further incorporates the "service-access" approach<sup>8</sup> in his analysis of the causes of poverty. He draws attention to the "oft-bemoaned criticism of government agencies that opportunities offered by them fall in the *wrong* hands.....those to whom public allocations should be addressed are in fact not benefiting from these allocations at all" (Salih, 1977, p.37). Using Aziz's terminology, Salih argues that "*neglect* can be seen as a lack of access to facilities provided by the government, *low productivity* is caused by a lack of access to resources which increase production, and *exploitation* is through a lack of access to those institutions which prevent exploitation of poor-groups" (ibid.).

Therefore access is crucial in poverty reduction programmes; access to jobs, education, public housing, credit, agricultural development, health and social services. Nevertheless, the problem of access on the part of the poor may occur due to the lack of information on the kinds of resources available for

---

7. For example, in 1985 the ratio of doctors per 10,000 population was higher in urban areas. Kuala Lumpur had a ratio of 11.4 while Penang had a ratio of 4.6, compared with a ratio of 1.6 for Kelantan, 1.7 for Trengganu and 1.9 for Kedah - the last three states have a high percentage of Malay population, mainly engaged in padi farming and fishing.

8. This approach was first suggested by B. Schaffer and H.B. Hsien (1975). According to the service-access approach the phenomenon of access between the administrative allocation of goods and services and the people who need them and for whom they are intended. Unequal access as a result of defaults and weaknesses in the resource-allocating system may lead to persistence of poverty in certain groups or communities or regions.



them, or they have been denied access as a consequence of discriminatory attitudes and practices of the officials responsible for the allocation of the resources. Normally the poor are given what Schaffer terms as "institutionally determined services: services suit institutions, but not them" (Schaffer, 1973, p.5). For access to be equitable, it is desirable that structural barriers which hinder equitable distribution of resources be removed first, as equitable access by itself cannot reduce the maldistribution of resources that has been seen as the root of poverty.

To recapitulate the discussion so far, the structural-institutional analysts blame economic dualism, neglect and exploitation of the traditional sector as the cause of rural poverty. The theories mainly implied that if rural productivity and income could be increased through state intervention and the overhaul of rural development institutions, then the problem of poverty could be minimised, especially after the implementation of the New Economic Policy in 1971. If this were the case, then why does the problem of poverty still persist, especially rural poverty?

Accordingly, the problem of poverty has to be perceived in a wider context. Hence Salih (1977) relates the problem of poverty to the wider processes of the rural, domestic and external economies. Within the context of rural poverty he suggests that policy-makers focus on the concentration of landholdings and landlessness in the analysis of poverty and inequality. Since domestic and international economic factors are interlinked through international economic dependence, the focus should also stress on the role of commodity prices, like rubber and palm oil.



## SUMMARY AND CONCLUDING REMARKS

Our review on various theories of poverty in Malaysia clearly points to the fact that policies for the alleviation of poverty should not concentrate on internal economic factors only but also on attempts to (a) widen opportunities of access to various economic and social institutions, and (b) re-structure institutions and their facilities so that certain social institutions (education, training, health, social security) are given a higher percentage of resources.

Still, we cannot totally depend on the provision of welfare services and income transfers because they do not remove the underlying causes of poverty. On the other hand, efforts aimed at expanding the output of key commodities such as food production would be inadequate if they do not effect any changes in the purchasing power of the poor. What is desired is a structural change in the distribution of productive wealth and therefore economic power and in increasing the participation of the poor in decision-making, thus enabling them to exercise political power.

## Chapter Eight

# MEASUREMENTS OF POVERTY IN MALAYSIA

### INTRODUCTION

The review of the theories of poverty in Malaysia would not be complete without an appraisal of the conceptions of poverty in the various Five Year Development Plans. Accordingly, in this chapter the objective is to attempt an appreciation of the state's conception of poverty; and to review the various methods of estimating the poverty datum line in Peninsula Malaysia.

### THE DEVELOPMENT PLANS AND ANTI-POVERTY PARADIGMS

In the following section the discussion will examine the theoretical orientation adopted by the state in its anti-poverty programmes. In the Five Year Development Plans, the anti-poverty programme was first initiated with the inception of the New Economic Policy in 1971, corresponding to the commencement of the Second Malaysia Plan. Prior to the inception of the New Economic Policy, the criterion for development was the Gross Domestic Product, with the emphasis upon economic growth and agricultural diversification. As was mentioned in chapter Four, social development was not a priority, instead it was circumscribed within the parameters of economic growth. The First Malaysia Plan (1965-1970), for example, states its objective in terms of increasing "the well being of Malaysia's

rural inhabitants and the low-income groups" (1MP, p 2). Presumably, the planners believed the problem of poverty could be tackled through rural development.

With the inception of the NEP in 1971, the eradication of poverty, being one of the two objectives of the NEP (the second of which is the restructuring of society and economic balance) (2MP, pp 4-6) becomes a prominent feature in subsequent five-year development plans. However, in the Second Malaysia Plan the state stressed the restructuring of society, while poverty reduction strategies were not specified explicitly and no attempt was made to define poverty. Statements made in connection to poverty alleviation were rather general, using terms such as "modernizing the rural areas" (2MP, p 7) and "help create a Malay commercial and industrial community" (ibid.).

In line with the above statements, the state advocates a policy of alleviating rural poverty by injecting new technology into the rural environment; extensive land development and agricultural modernization, carried out through the application of modern technology; and wider credit and marketing facilities. Modernization of the rural areas also meant the adoption of new cultural values such as individual achievement and self reliance - implying that the rural population has to be socialised to the values of the modern sector.

Although the government does not state explicitly the theoretical orientation of its development plans, Shamsul (1976b, p 6) contends that the Second Malaysia Plan (1971-75) was based on an "Integration-Equilibrium-Diffusionist Model", which assumes that within the framework of economic dualism, development depends on the degree of use of modern technology and that development occurs through new capital, institutions and technological inputs. This model maintains that within a national framework the growth of



the traditional sector is dependent on the modern sector. Thus, in its anti-poverty programmes, the Malaysian state deliberately integrates the traditional sector into the modern capitalist sector, by means of the introduction of modern inputs, technology, the creation of new institutions and the transfer of values from the modern sector into the traditional sector.

On that account, the Second Malaysia Plan (1971-75) clearly delineates the existence of two separate but interlinked sectors of the economy. The Plan identifies four economic sub-sectors, namely, the modern urban and rural sectors, the traditional urban and rural sectors and the government sector (2MP, pp 36-37). The Plan asserts that poverty could be reduced by raising the income levels and increasing the productivity of labour, through modern techniques, provision of education and training opportunities, and providing a wide range of free or subsidised social services (2MP, pp 4-5).

By comparison, the Third Malaysia Plan (1976-80) contains specific poverty alleviation strategies, as by then the extent of poverty had been amply comprehended by state planners. The Plan includes statistics on the quantification of poverty, specifying the targets for its reduction as well setting out anti-poverty policy measures. The Plan states that: "A key element in the attack on poverty will be to enlarge the access of the poor to productive assets, essential production inputs, training, credit, processing and marketing facilities and basic social services" (3MP, p 162). The same document recognises that the problem of low productivity is linked to various factors, which include inadequate-sized holdings, prevalence of tenancy, and lack of drainage and irrigation facilities (3MP, p 164).

Statements in the Third Malaysia Plan (1976-80) explicitly show that state planners recognise the importance of "access" for the poor. The Plan claims that "economic growth can significantly improve the economic position of the poor only if it concomitantly provides them with access to and benefits from productive assets, training and basic services" (3MP, p 169). Furthermore, the Plan states that poverty redressal policies embodied in the New Economic Policy aim at "ensuring that such access is provided in the shortest time possible, on the basis of the resources generated by economic growth (ibid.). There was, however, no explicit explanation of how such access could be provided.

By stressing the concept of access state planners were implicitly accepting the Liberal-Pluralist reasons for reform without accepting whole-sale re-casting of economic institutions and social services. Growth that creates opportunities for the poor will have greater impact on the poor if they have access to land, credit, public infrastructure and services. One may reflect upon the fact that in many societies political leaders have found easier to satisfy aspirations for equality of opportunity than equality.

Policies to redistribute land can create opportunities for many of the landless rural poor<sup>1</sup>. However, in Malaysia, in the absence of a major social and

---

1 For example, in a study of West Godavari district in India, Parthasarathy and Rama Rao (1974, p 85) observe that among the rural labour households possessing land, however small the area of such holdings, the proportion of households falling below subsistence is lower, and that those who own more than 0.4 hectares do not enter the rural wage-labour market at all.



political upheaval such as a revolution , political realities forbid land reform. Policies aimed at increasing access to land include new land development schemes, the provision of more secure tenancies and protection of rights in the transfer of ownership.

Increasing credit to the poor would be achieved through large-scale subsidized credit programmes because the poor cannot afford market interest rates. This is needed also because formal lenders are too cautious and informal lenders too exploitative. Still, as a disincentive to the non-poor, loans had to be small and loan terms had to be strict, or else cheap credit could end up as a transfer programme for the non-poor.

Improving access to infrastructure and technology would be realised through public investment in these two areas. This is critical in raising incomes and reducing poverty. Policies also included adapting technologies for small farmers and providing rural infrastructure.

Efforts to reduce poverty in the long-run also require greater investment in human capital. Investing in human capital, especially in education<sup>2</sup>, health and nutrition also attacks some of the most important causes of poverty. Thus social services are an essential part of any long-term strategy for reducing poverty.

Nevertheless, we ought to recognize the enormous difference between conceding the need for better access, compared with structural change to

---

2. As an illustration, Visaria (1981) states that the incidence of poverty declines with an increase in the educational level of the head of household. It is interesting to note that compared to the poor in the Indian sub-continent, the educational attainment of poor heads of households in Peninsula Malaysia appears to be better, and communications with them should be easier than in the subcontinent (Visaria, 1981, pp 46-47).



equalise conditions and incomes. It is like the difference between equality of opportunity and equality. From the statements regarding "access" which were quoted from the Third Malaysia Plan it is clear that Malaysian state planners have an orientation towards traditional neo-classical economics, which is acceptable to the World Bank - perhaps due to the presence of World Bank advisers in the Economic Planning Unit. In fact this substantiates the guess made in chapter Seven<sup>3</sup>. Yet it is structural change which might produce greater impact on the poor, but would certainly arouse violent opposition internally and externally.

### OFFICIAL DEFINITIONS OF POVERTY

This section presents a critical review of the official definitions of poverty which are applied in the five-year development plan documents. The earliest definition of poverty, in the sequence of Five-Year Planning documents, is found in the Third Malaysia Plan (1976-80). Using an absolute approach in defining poverty, the Plan states that "poverty in the country has been measured by comparing absolute levels of household income with the income required for minimum subsistence ..... takes account of other non-food requirements of each household to sustain a decent standard of living" (3MP, p 160). However, there was no further elaboration of the food and non-food requirements needed by individuals and households; and the income level required for minimum subsistence was not specified anywhere in the document. Even so, by using the above-mentioned definition of poverty, the Plan estimates that in 1970 49.3 percent of all households in Peninsula Malaysia lived in poverty (ibid.).

---

3. Refer to "Summary and Concluding Remarks" in Chapter Seven.

In contrast, the Fourth Malaysia Plan (1981-85) adopts the relative approach to poverty. Poor households are defined as the lowest four deciles in the size distribution of income (4MP, p 36). Table 8.1 shows income gains accruing to poor households as a result of the economic progress in the country between 1971 to 1979, in current prices. During this period the mean income of poor households as a whole increased at the rate of 10.5 percent per annum. Yet, as was discussed in chapter Six, the relative approach is not an accurate means of measuring poverty inasmuch that this approach is "insensitive to the rate of movement out of poverty if more than 40 percent of the people are poor. It measures only those left behind" (Fields, 1980, p 29).

**Table 8.1**

Mean Monthly Household Income of Lowest Four Deciles  
1970-79

	1970 (\$)	1976 (\$)	1979 (\$)	Annual Growth Rate 1971-79 (%)
Malay	56.76	101.95	140.35	10.6
Chinese	135.93	247.27	280.11	8.4
Indian	112.48	197.21	263.43	9.9
Total	75.90	142.19	186.19	10.5

Source: Fourth Malaysia Plan 1981-85, Table 3-3, p. 37;(adapted).

In the Fifth Malaysia Plan (1986-90) the state reverts back to the absolute definition of poverty. This document states that: "Poverty has been conceptualised in terms of the ability of the average Malaysian household to consume sufficient goods and services. The poverty line income is defined as an income sufficient to purchase a minimum food basket to maintain a household in good nutritional health and the conventional needs in respect of clothing and footwear, rent, fuel and power, transport and communications, health, education, and recreation" (5MP, p 83). Although the definition does not list the food items or the nutritional value contained in the "minimum food basket" it did specify, albeit in broad terms, the non-food items which ought to be accounted for in measuring the poverty line income.

The publication of the Review of the Fifth Malaysia Plan (1989) signifies a marked departure from the past. For the first time the government has revealed the official poverty line income, a measurement which not only reflects the absolute poverty level but acknowledges the need to maintain its value relative to change in the cost of the standard of living. The Review states that "the poverty line income essentially consists of three major components that include food, clothing and footwear, and the non-food items such as rent, fuel and power, transport and communications, health, education, and recreation ..... [and] is updated annually using the Consumer Price Index to reflect changes in price levels" (R5MP, p 45). For the year 1987 the poverty line income is about \$350 per month for a household of 5.14 persons (ibid.). Based on this poverty line income, for 1987 the incidence of poverty in Peninsula Malaysia was 17.3 percent (R5MP, p 47).



Even so, we have to be cautious in accepting the official poverty line income. In 1984 the Economic Planning Unit set the poverty line income at \$349 for a family of 5.14 persons<sup>4</sup>. It is clear that the poverty line income has not been adjusted between 1984 and 1987.

Furthermore, no differentiations, particularly in the cost of living, are made between urban and rural areas. There are no specifications of the differences in the age and sex requirements of a family. Different dietary or nutritional requirements between rural and urban families or between different occupational groups are not given any consideration at all. We ought to be aware that in rural areas certain basic necessities are obtained through minimal or no cost at all. One example is rent for accommodation, which may form a substantial proportion of the income of the urban poor; whereas there is a greater possibility for the rural poor to live in houses which they own, and which are therefore rent-free.

Another salient point concerns the accuracy of the Consumer Price Index (CPI). The state itself doubts the accuracy of the CPI figures, having admitted that: "No revision has been made to the weights in the present index since 1980" (Finance Minister's Budget Speech, 14.12.1990). For that reason, the rate of inflation, estimated at 3.2 percent in 1990 (FEER, 27.12.1990, p 35) is not accurately reflected by the CPI, and this has serious implications on the cogency of the poverty line income. If the state's effort to reduce poverty is to be effective, information is needed on how the poor derive and spend their incomes so that policymakers are able to assess how changes in relative prices will affect real incomes.

---

4. Personal communication with the Poverty Division, Economic Planning Unit, 1985.

Accordingly, it ought to be recognized that the poverty line income has a number of inherent limitations. An income based approach towards measuring poverty necessarily needs to be supplemented by other dimensions that affect household living standards, such as accessibility to basic needs and the quality of life, particularly accessibility to services like education, health and physical infrastructure.

However, from the official definitions of poverty that have been discussed in the preceding paragraphs, it could be safely argue that Malaysian state planners accept that the absolute measure of poverty reflecting individual material needs, compared with a relative or more social measure which reflects citizens' need to participate in an evolving social structure, is more relevant for Malaysia.

## MEASUREMENTS OF POVERTY IN MALAYSIA

In Malaysia both the absolute and the relative approaches in defining the levels of poverty have been applied at one time or the other. Both these methods of measurement shall be discussed below.

### RELATIVE APPROACH

In applying the relative approach to Malaysia, Anand (1977) defines a poor household as one with a total income that falls below the bottom 40 percent in the national income distribution. Based on 1970 income and



prices and using data obtained in the Post Enumeration Survey of the 1970 Population Census<sup>5</sup>, Anand (1977, p 3) estimates that the lowest 40 percent of households in Malaysia earned an average income of about \$150 per month. Taking an average size of six persons per household each individual should have an income of \$25 per month, below which the individual would be considered to be living in poverty. However, there was no explanation of what the sum of \$25 was intended to purchase. The cut-off point was defined for computational convenience more than anything else. The proportion of individuals who fall below this level of percapita household income was estimated at 40.2 percent, while the proportion of households living below this poverty line was 36.5 percent, largely due to the fact that the poor have larger-sized households on average than the non-poor (Anand, 1977, pp 3-4).

The figure of \$25 monthly percapita poverty line income was adopted by the state. This point was expressed in the Treasury Economic Report of 1974/75, which states that "one could simply define the bottom 40 percent of the population in the national percapita household income as being poor" (TER, 1974/75, pp 84-85). However, there was no justification of the choice of 40 percent as mentioned above. In this instance, again it could be assumed that the figure was chosen for computational convenience.

In chapter Six it was argued that there are several disadvantages in using the relative approach in defining the poverty line income. It does not measure adequately the population who are in poverty because it is assumed at all times relatively 40 percent of the whole population are living below the poverty line. For that reason, perhaps, the relative approach was applied in the country for a

---

5. In the Post Enumeration Survey the concept of individual and household income includes wages and salaries; business, property and interest income; and transfers, both in cash and kind (Anand, 1977, p 2).



short period only until the formulation of an absolute measurement of poverty in 1975.

### ABSOLUTE APPROACH

Attempts to define an absolute poverty line for Malaysia were first initiated by the Ministry of Social Welfare (MSW) in 1975. In this instance the poverty line income has been identified as an index that separates the poor from the non-poor. The major objective of this exercise was to institute "a scheme of social assistance based on the principles of social justice whereby all those in poverty through circumstances beyond their control should be eligible for assistance in the quantum related to their needs" (MSW, 1975, p 105). Thus the poverty line was identified in terms of the income required "to maintain a family in good nutritional health plus an additional figure for the minimum conventional needs in respect of clothing, household management, transport and communication" (MSW, 1975, p 106). Certainly this was very close to formulations of a "subsistence" basis for the definition of poverty.

Basically, the computation of an absolute poverty line devised by the Ministry of Social Welfare was somewhat similar to the foodbasket method devised by Mollie Orshansky for the United States Social Security Administration (Orshansky, 1965). In the Malaysian case, data on food consumption and other expenditures were based on data available in the 1973 Household Expenditure Survey. The food budget, on a low scale diet required to maintain good nutritional health, was devised with the assistance of the Institute of Medical Research. In choosing items for the food basket, the Ministry allowed for the different dietary habits and conventions of the three major ethnic communities in the country. As far as possible, the cheapest food items, particularly

vegetables, were chosen. Two varieties of fish, *ikan cincaru* and *ikan kembong*, from the mackerel family, were chosen; however these were not necessarily the cheapest but they formed the two most common types of fish consumed by the low income group. Sweetened condensed milk for adults and powdered milk for children were recommended by the nutritionist. The choice for meat was a combination of beef and chicken for the Malays, pork and chicken for the Chinese, and mutton and chicken for the Indians (MSW, 1975, pp 118-19).

Calculations of the minimum food budget was computed separately for adult males and females by ethnic groups and for children, both according to rural and urban locations. However, there were little variations between rural and urban prices for the items considered in the food basket. Also, there was little difference in the cost of different food baskets for the three ethnic groups. The minimum food budget, as calculated by the Institute of Medical Research, for a family of five was \$160.82 per month (MSW, 1975, p 119).

With the food budget established at the rate mentioned in the preceding paragraph, the poverty line was then estimated by using three different formulae, which will be discussed in the following paragraphs.

In Method 1 the proportion of total expenditure on food was estimated for families with monthly incomes of less than \$200. The 1973 Household Expenditure Survey shows, on average, this income group spends 50.1 percent of their total household expenditure on food and the remaining of their expenditure on all non-food items, as listed in Table 8.2. The poverty line was then calculated as a sum of the food budget plus an aggregate estimate for all the non-food expenditure. Based on this method, the poverty line income was calculated as follows:

**Table 8.2**

Peninsular Malaysia: Monthly Expenditure of all  
Households and Households with monthly Incomes  
of less than \$200 in 1973  
(in percentages)

	All Households	Households with incomes less than \$200 per month
Items	%	%
Food	36.2	50.1
Beverage & Tobacco	3.8	4.8
Clothing & Footwear	5.6	4.1
Gross rent, fuel & power	14.9	17.4
Furniture, furnishing & household equipment & operation	4.1	2.5
Medical care & health expenses	1.7	1.0
Transport & communication	12.2	5.1
Recreation, entertainment, education & cultural services	6.7	2.7
Miscellaneous goods & services	14.8	12.3
Total	100.0	100.0

Source: Malaysia, Department of Statistics Household Expenditure Survey 1973, Report No. 1, Table 4.7, p. 84.



$$\text{Poverty Line} = A + (x/y \times A)$$

where: A = Food Budget

x = % of the total expenditure on all non-food items

y = % of total expenditure on food

$$\begin{aligned}\text{Poverty Line} &= \$160.82 + (49.9/50.1 \times \$160.82) \\ &= \$320.99\end{aligned}$$

In Method 2, in contrast to Method 1, the non-food budget was restricted to only four essential items; namely, (i) clothing and footwear, (ii) rent, fuel and power, (iii) household equipment and operation, (iv) transport and communications. Therefore all non-food items other than those listed above were excluded from the poverty line budget. The poverty line is obtained as sum of the food budget and the calculated minimum requirement for each of the four non-food items mentioned above. Therefore, compared to Method 1, a lower poverty line would be expected. By using Method 2 the poverty line for a family of five persons was calculated as follows:

$$\text{Poverty Line} = A + B + C + D + E$$

where A = Food Budget

B = calculated minimum requirement for clothing and footwear

C = calculated minimum requirement for rent, fuel and power based on proportional expenditure

D = calculated minimum requirement for household equipment and operation based on proportional expenditure

E = calculated minimum requirement for transport and communications

$$\text{Poverty Line} = \$160.82 + (\$160.82 \times 4.4/50.1)$$

$$+ (\$160.82 \times 16.5/50.1)$$

$$+ (\$160.82 \times 2.4/50.1)$$

$$+ (\$160.82 \times 5.2/50.1)$$

$$= \$160.82 + \$91.47$$

$$= \$252.29$$

In Method 3 the poverty line was arrived at by adding the value of the minimum food budget to the actual expenditure incurred on non-food items, as classified in Method 2, but with adjustments for price increases between July 1973 to August 1974. The relevant percentages increases in prices are: 1) clothing and footwear 9 percent; 2) rent, fuel and power 9.6 percent; 3) household equipment and operation 18.4 percent; 4) transport and communications 18.4 percent. By using this method the poverty line for a household of five persons was calculated as follows:

$$\text{Poverty Line} = A + [(b + c + d + e) \times 5]$$

where A = Food Budget (as in Methods 1 & 2)

b = actual expenditure on clothing and footwear

c = actual expenditure on rent, fuel and power

d = actual expenditure on household equipment and operation

e = actual expenditure on transport and communications

$$\begin{aligned} \text{Poverty Line} &= \$160.82 + [(1.40 + 5.35 + 0.85 \\ &\quad + 1.70) \times 5] \\ &= \$160.82 + 46.54 \\ &= \$207.36 \end{aligned}$$

The poverty line incomes derived at by using all three methods were readjusted according to 1970 prices. Subsequently, the poverty line in 1970, by applying Methods 1, 2 and 3, was estimated as \$207.70, \$163.24 and \$142.80 per month per household of five members respectively. By adopting Methods 1, 2 and 3 the proportion of households living in poverty in 1970 were estimated at 60 percent, 48.5 percent and 42.3 percent respectively (MSW, 1975, p 130).

Further calculations by Anand (1983) shows that the absolute percapita poverty line income under Method 2 in 1970 was \$32.60 per month, while under Method 3 it was \$28.60 (Anand, 1983, p 118). To Anand these estimates "turn out to be fairly close to the \$25 percapita poverty line income of the relative approach" (Anand, 1983, p 118), a figure which have been mentioned in the previous sub-section (in the discussion of the relative approach in measuring poverty).



Yet, there are several flaws in the computation of the poverty line income derived by using each of the Methods 1, 2 and 3. Anand (1977, pp 6-7), for instance draws attention to the fact that the non-food budget in Method 1 includes many items which are inessential for subsistence living. Methods 2 and 3 appear to be closer to the notion of subsistence for the reason that these two methods specify only certain non-food items as essential to the "minimum" diet. Still, in all these methods the food basket chosen is not a "nutritional minimum" because it is drawn "basically from the diet provided in Government Hospitals for a normal average adult" while for children it is based on the "diet required for normal growth and maintenance of good nutritional health" (MSW, 1975, p 118).

Essentially in drawing a poverty line based on a minimum diet plan, it is necessary in principle to have nutritional data in detail by age and sex and by type of activity, as these may vary considerably and therefore affect the estimates. Furthermore by assuming a unified-sized family across-the-board with equal nutritional requirements, the Ministry ignored important differences in consumption between different sexes and age groups. On account of this, it would be more relevant to speak in terms of consumption units rather than family members. Also there is the problem of updating the food and household budget in accordance with changes in the consumption norms of the public.

Therefore the food budget used as a basis for defining the absolute subsistence poverty level "appears to be based more on general consumption patterns than on the absolute minimum required for subsistence" (Anand, 1977, p 6). For this reason the Ministry's minimum food budget is likely to be higher than one which is based strictly on a subsistence definition. Precisely because the poverty line drawn up by Methods 1, 2 and 3 are in fact a consumption expenditure rather than an income poverty line, no account was taken of the

saving behaviour of the various income groups. The poverty line based on the calculations by the Ministry of Social Welfare therefore represents the level of expenditure and not of income which is necessary to ensure a minimum standard of living.

As an alternative to the poverty line drawn up by the Ministry of Social Welfare this study will now consider two measures of poverty line devised by Shari (1979, pp 422-425). In his Poverty Measure I Shari calculates the minimum total income requirements for a household by using the Engel coefficient, i.e. the proportion of income spent on food. The poverty line is derived by using the following formula:

$$\text{Poverty Line} = \text{FB} \times 1/\text{EF}$$

where FB = Food Budget

EF = Engel Coefficient

Thus by using the actual consumption pattern on food and non-food items as obtained in the 1973 Household Expenditure Survey, Shari arrived at a poverty line of \$47.88 for urban areas and \$42.27 for rural areas (in terms of a monthly percapita income) for the year 1973.

Shari's Poverty Measure II follows the method suggested by Oshima (1977). Unlike Orshanky's (1956) food basket, this method is based on actual consumption patterns, because the proportion of income allocated to basic necessities, such as food, is an indicator of the economic well-being of an individual, household or society.

The poverty line is determined by first grouping the households according to percapita income into ten equal deciles arranged in descending order, and then the Engel coefficient is calculated for each decile. The percapita expenditure



corresponding to the income decile in which the Engel coefficient begins to fall may be interpreted as the income level pertaining to households which have met most of their very urgent food needs. Thus those households with incomes below this income level are considered poor. In principle this reference to criteria by which an income "threshold" can be decided was also adopted by Townsend in the "relative deprivation" standard of poverty (Townsend, 1979, especially Chapter 6). By using this method Shari estimated the percapita expenditure of \$38.33 as the poverty line for 1973.

On the whole, the crucial difference between Shari's poverty measures and the calculations by the Ministry of Social Welfare is the way in which Shari and the Ministry viewed the degree of comparative essentials included in their formulae. Shari's measures were based on actual consumption patterns of food and non-food items as obtained in the Household Expenditure Survey 1973. All three methods devised by the Ministry, on the other hand, were based on a food basket consisting of a low scale diet drawn up by the Institute of Medical Research, plus minimum requirements for the non-food items in Methods 1 and 2, and actual expenditure on non-food items were used in Method 3.

On a more salient point, Shari's measures appear to have a higher degree of generosity built into each of his formula. His food basket was not based on any recommended minimum subsistence diet; instead it was based on actual consumption patterns. By using the actual consumption patterns in all his measures, Shari had attempted to overcome the problem of arbitrariness in determining the needs of the poor. However, as shown in Table 8.3, this means that Shari's poverty threshold is higher than those based on the calculations by either the Ministry of Social Welfare or the Economic Planning Unit. Thus this study contends that Shari's poverty measures are more preferable than those of the Ministry of Social Welfare.



**Table 8.3**

**Incidences of Poverty**

Poverty Line Incomes (per capita)	Year	Percentage of poor households		
		Rural	Urban	Total
1. Shari				
i Poverty Measure I	1973	59	30	49.7
\$42.27 (rural)				
\$47.88 (urban)				
ii Poverty Measure II	1973	51.5	18.7	40.9
\$38.33 (peninsula)				
2. Economic Planning				
Unit	1973	46.5	18.6	37.5
\$34.58 (rural)				
\$38.33 (urban)				
3. Ministry of Social				
Welfare				
Method 3				
\$28.60 (peninsula)	1970			42.3

**Sources:** Shari (1979), pp. 425; 434; Table 4, p.427; Table 5, p 431;  
Ministry of Social Welfare (1975), p. 130.

## A REVIEW OF POVERTY LINES

The amount of monthly income required by a family in order to remain above the poverty line obviously changes over time according to the general price level in the country. The amount further changes in keeping with variations in the quantities of non-food items which are considered essential for each family member. Prior to the year 1989, for reasons known to itself only, the government did not disclose the poverty datum line for any income group or community in the country. Details of the computation of the poverty datum line are not available outside the appropriate government circles. With the exception of the Review of the Fifth Malaysia Plan (1989), what is made known in the Five Year Development Plans is merely the extent of the incidence of poverty in the country.

Nevertheless, several attempts to define the absolute poverty line have been carried out by individual researchers, such as Shari (1979), and also by researchers working for the World Bank. For example, for the year 1970, judging from the detailed poverty incidence figures quoted in the Third Malaysia Plan (1976-80), Anand (1983) suspects the government used a percapita poverty line income of \$33 per month (Anand, 1983, p 133). This figure is similar to the poverty line income obtained by computations under Method 2 of the Ministry of Social Welfare.

Hasan (1980, fn 13, p 43) believes that in 1975 Malaysian officials appeared to consider all households with a monthly income of \$180 per household in 1970 prices as living below the minimum standard or below the poverty line. Taking into account the average household size of 5.5 persons as reported by the 1970 Population Census or 5.4 persons as estimated by the 1973 Household Expenditure Survey, the percapita poverty line income in 1970 prices would be

\$33, which again is similar to calculations under Method 2 of the Ministry of Social Welfare.

Visaria (1981, p 41) states that in 1977 the World Bank specified separate poverty lines for urban and rural areas, at a level of a monthly household expenditure of \$246.1 for rural households and \$272.6 or 11 percent higher for urban households or \$252.4 for the peninsula as a whole, all at current prices. Different standards for urban and rural areas were adopted due to lifestyle and cost of living differentials found in these two sectors. Having made adjustments for the rise in the consumer price index between 1973 and 1977, for the year 1973 Visaria (ibid.) obtained a poverty line in terms of a monthly percapita expenditure of \$38.33 for urban areas, \$34.58 for rural areas and \$35.67 for the peninsula as a whole.

For comparative purposes, Visaria (1981, p 52) confirms that in some of its work the World Bank uses a poverty line in terms of a monthly income of \$187.80 for Peninsula Malaysia, or \$202.08 for urban areas and \$183.10 for rural areas, all at 1973 prices. In terms of a monthly percapita income the poverty line incomes are equivalent to \$34.78 for Peninsula Malaysia, \$37.56 for urban areas and \$33.91 for rural areas. Visaria (ibid.) contends that these poverty lines are only slightly lower than those of his estimates which are based on the monthly percapita expenditure.

Similarly, Shari (1979, p 425) refers to the Economic Planning Unit estimates of the official poverty line for 1973, in terms of monthly percapita incomes of \$34.58 in rural areas and \$38.33 in the urban areas, or \$35.67 for the peninsula as a whole - all these figures are comparable to the Visaria's (1981) computations. Clearly this is an indication that the poverty line figures used by Economic Planning Unit were calculated by World Bank advisers.



For the year 1978, Bussink (1980, 116) reports that the Economic Planning unit had lowered the poverty line income for Peninsula Malaysia from \$33 to \$29 percapita per month, or equivalent to approximately \$160 per month for an average household of 5.5 persons, in 1970 prices. Bussink (ibid.) attributes this revision to the use of a less generous diet than was used in the earlier estimates. By using the revised poverty line income, about 43 percent of the population was in poverty in 1975 and about 38 percent in 1976 (Bussink, ibid.). These figures are comparable to the estimates of the incidence of poverty presented in the Fourth Malaysia Plan (1981-85), which was 43.9 percent in 1975 and 35.1 percent in 1976 (4MP, pp 33; 43).

## POVERTY PROFILE

The preceding section reviewed the various statistical estimates of the poverty line income for Peninsula Malaysia. Thus it is appropriate that this section presents a profile of poverty in Peninsula Malaysia, using data obtained from the Development Plan documents and bearing in mind that data limitations<sup>6</sup> might impose constraints on the details of poverty in the country.

## INCIDENCE OF POVERTY

Measured on the basis of the poverty line income the incidence of poverty in Peninsula Malaysia declined from 49.3 percent in 1970 to 47.6 percent in 1976 (4MP, p 85), and the figure declined further from 18.4 percent in 1984 to 17.3 percent in 1987 (R5MP, p 47). These figures show a reduction of

---

6. Presumably for political and economic reasons, "the Malaysian government is very sensitive about the release of its data" (Mangahas, 1979, p 12).

approximately 65 percent in the incidence of poverty between 1970 and 1987, which is certainly a substantial reduction. Yet the substantial reduction of poverty was not accompanied by a corresponding substantial reduction in income inequalities. In chapter Five it was noted that between 1970 to 1987 the trends in the distribution of household income indicate that the pattern of inequalities has altered only marginally during that period. In other words, had a more generous poverty line been used, the conclusion concerning the reduction of poverty during the period mentioned above might have been different. Still, it is quite possible for a country to reduce the extent of absolute poverty without a substantial reduction in the extent of income inequalities. In Malaysia the gini coefficients narrowed from 0.51 in 1970 to 0.48 in 1984 (5MP, p 100), which means there has been a slight improvement in the distribution of household income during the period in discussion.

### GEOGRAPHICAL DISTRIBUTION OF POVERTY

Poverty in the peninsula is a rural phenomenon<sup>7</sup>. Table 8.4 shows that in 1984 the incidence of poverty in the rural areas was 24.7 percent, while in the urban areas it was only 8.2 percent; As many as 83.2 percent of the total poor households are located in the rural areas (5MP, p 86). By 1987 the situation has not changed significantly. Although the incidence of rural poverty decreased slightly to 22.4 percent in 1987, the incidence of urban poverty remained at 8 percent, while the proportion of rural households in the rural

---

7. This study has pointed out in chapters 3, 4 and 7 that the causes of rural poverty could be traced back to the underdevelopment of the Malay peasantry which took place during the colonial regime and was not properly rectified by the independent government.

**Table 8.4**

Peninsular Malaysia: Incidence of poverty and number of poor households by Stratum and Target Group, 1984 and 1987.

Stratum and Target Group	1984 Incidence of poverty (%)	No. of poor households	1987 Incidence of poverty (%)	No. of poor households
Peninsular Malaysia	18.4	483,300	17.3	485,800
Urban	8.2	81,300	8.1	82,600
Rural	24.7	402,000	22.4	403,200
Target Groups				
Rubber smallholders	42.7	68,500	40.0	83,100
Padi Farmers	57.7	70,500	50.2	54,400
Coconut smallholders	46.2	6,700	39.2	4,900
Fishermen	26.1	10,700	24.5	10,700
Estate Workers	19.6	16,400	15.0	11,700

Source: Review of Fifth Malaysia Plan, 1989, Table 3-6,  
p. 52 (adapted).



areas also remained constant at 83 percent (R5MP, p 56), thus showing that the effects of a depressed world economy plus inflation are some of the reasons which prohibited a significant reduction of the rate of poverty during the period in discussion.

If we look closely at the breakdown of the figures of the incidence of poverty, it is interesting to note that there are remarkable differences in the incidence of poverty within the rural sector, in particular amongst the "target groups" - from 15 percent for estate workers to 50.2 percent for padi farmers. It may be possible that the incomes of padi farmers, for example, were probably underestimated. Goods and services produced for their own consumption were not accounted for in the calculations of income - perhaps only monetary income was taken into account.

Table 8.5 shows that poverty tends to be concentrated in a few states. Four states, namely, Trengganu, Kelantan, Kedah and Perlis (all these states have a predominantly Malay population and a high concentration of rubber smallholders, padi farmers and fishermen) accounted for as much as 44 percent of the total poor households in 1987. Trengganu appeared to have been affected gravely by the economic recession of the mid-1980s, which is reflected by its high incidence of poverty of 36 percent, an increase of 24 percent between 1984 and 1987. The incidence of poverty in the states which depend less on agriculture due to their substantial secondary sector, namely, the Federal Territory of Kuala Lumpur, Negri Sembilan and Selangor also registered increases due to the sluggish growth in the secondary and tertiary sectors, thereby retarding the growth of sufficient employment to absorb the increasing labour force.

**Table 8.5**

Peninsular Malaysia: Incidence of Poverty and Number of Poor Households  
By State, 1984 and 1987.

State	1984		1987	
	Incidence of Poverty	No. of Poor Households (%)	Incidence of Poverty	No. of Poor Households (%)
Johor	12.2	44,500	11.1	44,700
Kedah	36.6	93,000	31.3	82,100
Kelantan	39.2	81,000	31.6	70,400
Melaka	15.8	15,000	11.7	12,100
Negeri Sembilan	13.0	17,300	21.5	30,100
Pahang	15.7	30,000	12.3	23,800
Pulau Pinang	13.4	27,400	12.9	28,200
Perak	20.3	81,100	19.9	79,700
Perlis	33.7	13,500	29.1	12,100
Selangor	8.6	31,000	8.9	40,800
Terengganu	28.9	37,600	36.1	49,600
Kuala Lumpur F.T.	4.9	11,800	5.2	12,200
Peninsular Malaysia	18.4	483,300	17.3	485,800

Note: F.T.: Federal Territory.

Source: Review of Fifth Malaysia Plan, 1989 Table 3-4, p. 45; (adapted).

## POPULATION GROUPS IN POVERTY

In terms of poverty target groups, the incidence of poverty is highest within three target groups comprising rubber smallholders, padi farmers and coconut smallholders, followed by fishermen and estate workers (Refer to Table 8.4). The first three groups together accounted for 29 percent of the total poor households in 1987 (R5MP, p 52).

Another group that deserves special attention in anti-poverty programmes comprise what are called the "hard-core" poor. The state defines this group as those households with incomes less than half of the poverty line income (R5MP, p 58), meaning that in 1987 the average household consisting of 5.14 persons earned incomes of \$125 or less. By using this definition, the incidence of poverty among the hard-core poor decreased from 6.3 percent in 1984 to 4.8 percent in 1987 (R5MP, p 58).

While it is true that poverty cuts across racial lines, undeniably, for reasons that were discussed in chapter Three (i.e. the underdevelopment of the Malay peasantry), the problem of poverty is largely a Malay one. From Table 8.6 it can be deduced that in 1987 Malay households accounted for almost three-quarter of the total poor households in the peninsula; compared with 12.7 percent for Chinese households and 5.5 percent for Indian households (R5MP, p 55). Although the incidence of Malay poverty declined from 25.8 percent in 1984 to 23.8 percent in 1987, the number of poor Malay households increased by 1.2 percent, from 388,800 to 393,000, during the same period. In comparison, in 1987 the incidence of poverty within Chinese and Indian households are 7 percent and 9.7 percent respectively. It is worth mentioning



**Table 8.6**

Peninsular Malaysia: Incidence of Poverty and Numbers of Poor Households by Ethnic Group. 1984 and 1987.

	1984 Incidence of poverty (%)	poor house- holds (nos.)	1987 Incidence of poverty (%)	poor house- holds (nos.)
Peninsula Malaysia	18.4	483,300	17.3	485,800
Malay	25.8	388,800	23.8	393,500
Chinese	7.8	66,100	7.1	61,700
Indian	10.1	25,000	9.7	26,700
Others	22.0	3,400	24.3	3,900

Source: Review of Fifth Malaysia Plan, 1989,  
Table 3-7, p. 55 (adapted).

that all ethnic groups except the Chinese experienced increases in absolute numbers of poor households during the period 1984 to 1987.

### POVERTY AND OCCUPATIONAL GROUPS

Poor households, by reason of their location in the rural areas, tend to disproportionately engaged in the agricultural sector. Table 8.7 shows that in 1976 almost 69 percent of the heads of poor households were engaged in the agriculture, forestry and fishing sub-sector. In chapter Five it was mentioned that employment in the agricultural sector as a proportion of total employment decreased from 50.3 percent in 1970 to 36 percent in 1985 (refer to Table 5.3). However, structural changes in the labour force and employment did not have significant effects on the incidence of poverty in the rural sector. As a case in point, in 1984 over 67 percent of the total poor households were engaged in the rural sector (R5MP, p 86), which means that between 1976 and 1987 the percentage of heads of poor households engaged in the rural sector did not decline significantly. Accordingly, it can be deduced that although absolute poverty has declined, relative (i.e. income-related) poverty is an apparent phenomenon.

**Table 8.7**

**Peninsular Malaysia: Percentage Among Heads of Poor Households by Sector of Employment, 1976**

Industry	Rural	Urban	Total
Agriculture, Forestry, Hunting & fishing	75.4	14.6	68.8
Mining & Quarrying	1.3	1.0	1.3
Manufacturing	4.7	11.9	5.5
Electricity, gas & water	0.3	1.7	0.5
Construction	3.2	10.9	4.0
Wholesale & retail trade, restaurants & hotels	5.5	19.3	7.0
Transport, storage & communication	3.2	13.8	4.3
Finance, insurance, real estate & business services	0.3	1.6	0.4
Community, social & personal services	5.4	22.4	7.2
Activities not defined or defined inadequately	0.7	2.8	1.0
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Fourth Malaysia Plan, Table 3.6, p. 50 (adapted).



In terms of the employment status of heads of poor households, due to the absence of current data, this analysis has to depend on data for 1976, which is presented in Table 8.8. In 1976 a total of 45 percent of poor households were headed by self-employed persons, especially in the rural areas, followed by wage-earners who accounted for 41 percent of the total heads of poor households (4MP, p 51). Presumably the wage-earners included estate workers and industrial production workers in the secondary sector. Data for 1987, although limited in scope, reveals that in the urban areas, where poor households, particularly in the construction, trade and transport sub-sectors, were distinctly affected by unemployment and retrenchment, about 40 percent of these households were headed by unemployed persons and a further 23 percent were headed by production workers in the manufacturing sub-sector (R5MP, p 57).

### POVERTY AND EDUCATIONAL STATUS

There is a positive correlation between poverty and the level of education, as statistics reveal that heads of poor households tend to be less educated. Data for the year 1976, which is presented in Table 8.9, shows that persons with no formal education forms 35.4 percent of all heads of poor households, while another 60 percent had some form of formal elementary education of not more than six years.

**Table 8.8**

Peninsular Malaysia: Percentage among Heads of poor Households by  
Employment Status, 1976

Activity status	Rural	Urban	Total
Self employed	47.9	25.4	45.2
Working for wages	39.4	53.1	41.0
Family worker	0.3	0.2	0.3
Looking after home	5.7	9.4	6.2
Others	6.7	11.9	7.3
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Fourth Malaysia Plan, Table 3.7, p. 51,  
(adapted).

**Table 8.9**

Peninsula Malaysia: Education Level  
of Heads of Poor Households, 1976  
(in percentages)

Educational Level	Rural	Urban	Total
No formal education	36.1	30.8	35.4
0-6 years (elementary)	60.2	59.1	60.0
7-9 years (lower secondary)	2.6	6.9	3.2
10-11 years (upper secondary)	0.5	2.4	0.9
Tertiary education	0.1	0.3	0.1
Others	0.5	0.5	0.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: Fourth Malaysia Plan, Tab. 3-8, p. 52,  
(adapted).

## POVERTY AND THE QUALITY OF LIFE

Besides data on the incidence of poverty, planners often gauge the success of poverty alleviation policies on the progress that has been made in enhancing the quality of life of the citizens. In general, significant progress has been made in the provision of basic services like education, health, communications and public utilities.

Life expectancy for Malaysians has increased from 66.7 years in 1980 to 67.6 years in 1984 for males, and from 71.6 years to 72.7 years during the same period for females (R5MP, p 58). By the year 1987 up to 73 percent of the rural households are supplied with potable and piped water, while some 88 percent of the rural areas are supplied with electricity (R5MP, p 59). Ostensibly, it may be concluded that at least some of the fruits of economic growth have trickled down to the lowest socio-economic groups in the society.

## SUMMARY AND CONCLUDING REMARKS

From the preceding analysis of the various levels of poverty line income for Peninsula Malaysia, which is summarised in Table 8.3, the reader will be aware by now, there is no agreement on what the poverty line ought to be. Nevertheless, it can be deduced that the poverty line incomes (for 1970 mainly) quoted in this chapter, on the whole, do not vary widely from the figure of \$33 monthly percapita income, obtained under Method 2 of the Ministry of Social Welfare. Yet, for financial reasons the Ministry uses the poverty line obtained by Method 3 (which is \$142.80 for a family of five in



1970 prices). For convenience of computation the cut-off point was set at \$150, and for that reason only families with a total income below \$150 per month could qualify for public assistance (MSW, 1975, p 111).

In the final analysis, as Anand (1977, p 7) suggests: "The choice of a poverty line must to some extent remain arbitrary". The appropriate choice of a poverty datum line should consider the sensitivity of both the absolute and relative approach of defining poverty. Furthermore, as George points out "Government policies on poverty are influenced not so much by findings of research studies and the arguments of academics but by wider political, ideological and economic considerations" (George, 1988, p 87). It is the values and the interests of the dominant groups in society that shape the official poverty line, which affects the daily lives of millions of poor people. A higher poverty line inevitably means substantial vertical redistribution while a low poverty line may involve very little redistribution.

Most important, as a rule, the subsistence level or poverty line announced by the state sets a floor to urban wages as much as trade unionism or political interference. Any move to raise or lower the poverty datum line therefore should take into consideration the benefits and disadvantages that might accrue to the society. A lower poverty datum line which is intended to reduce the number of people living in poverty might have serious consequences if thereby the state fails to take the problem seriously and inflation prevails at a high rate. One possible outcome of this would be to have done too little to prevent poverty arising (say by structural action) and as a result having a large section of unemployed and impoverished people requiring social security.

## Chapter Nine

### **DEVELOPMENT POLICIES: PROSPECTS FOR EGALITARIAN GROWTH?**

#### **INTRODUCTION**

In Chapter Eight it was pointed out that the incidence of poverty in Peninsula Malaysia, as measured by the Malaysian Government, had declined from 49.3 percent in 1970 to 17.3 percent in 1987 (R5MP, p 47). Paradoxically, the macro-distributional picture, as revealed by available data on the size distribution of household incomes, shows that although the overall relative inequalities have not increased, and according to data for 1984-87 may have decreased in that period, severe income disparities still persist.

Despite a drop of 65 percent in the incidence of poverty between 1970-87, the degree of inequality in Malaysia, as manifested in the pattern of income distribution has not undergone any major structural change. In the light of the trends of income distribution discussed in Chapter Five, Malaysia could not be considered to be among the more egalitarian countries. In 1987 the richest 20 percent of the population had a mean monthly household income of \$2752, seven and a half times that of the sum of \$370 for the poorer 40 percent (R5MP, Table, 3-3, p 42). It may safely be assumed that the performance of the Malaysian anti-poverty policies in narrowing income disparities between the rich and the poor could be described as "very small" rather than as "substantial" or "impressive".



Based on the discussion, in chapter Five, on development trends since 1970, this study contends is that while the state may be concerned with the reduction of absolute poverty, it is not totally committed to reducing social inequalities or relative poverty significantly. The discussion in this chapter will demonstrate further the failure of state policies in effecting a more equitable distribution of income and resources.

The analysis focuses on policies designed to alleviate poverty and increase the income of the poor, particularly those in the poverty target groups. Broadly, the analysis will concentrate on three areas of anti-poverty policies; namely, rural development, poverty reduction measures in the urban areas, and the effects of public expenditure on the redistribution of income and resources.

### RURAL DEVELOPMENT AND INCOME REDISTRIBUTION

Considering that the rural sector traditionally contains a higher incidence of poverty, with the inception of the New Economic Policy in 1971 an explicit objective of rural development is the eradication of rural poverty. Through the appraisal of the post-NEP Five Year Development Plans, it may be concluded that the basic rural poverty alleviation strategy is made up of several major components, which could be grouped as i) land development; ii) policies designed to increase productivity of poverty target groups, through such measures as the replanting of rubber and the double-cropping of rice and in situ development programmes; and iii) general social and physical infrastructure. The following sections will discuss the nature of these poverty eradication measures, with the aim of analysing the effects of state intervention on the various income groups. The focus, however, will be limited to a discussion on land development, and measures aimed at increasing the productivity and income of rubber smallholders and padi farmers.



## LAND DEVELOPMENT

Although several types of land development schemes are implemented by agencies of the state<sup>1</sup>, this study proposes to examine the role of Felda, the model agency for land development and the resettlement of rural landless population. Considering that land development is a major instrument of anti-poverty policy, therefore Felda plays a leading role in the Malaysian agricultural and rural development strategy.

Felda was created on 1 July, 1956<sup>2</sup>, thus fulfilling the newly elected (in the 1955 general election) government's promise to provide land for the landless, through the development of new agriculture areas. Ness (1967, p 123) states that in the original recommendation it was envisaged that Felda would foster a value of self-help by giving priority to those people who had already shown a desire to help themselves. Settlers were required to demonstrate their commitment to the value of self-help by clearing their own land, building their own houses and planting their own crops. However, pressures on Felda to speed up its operations forced the organization to abandon the original intentions and instead use contractors to clear the land, build the houses, plant the crops and provide labour to maintain the crops during the first three months.

---

1. Examples of land development schemes, apart from those administered by Felda, are Felcra's fringe alienation schemes, providing additional plots to uneconomic-sized holdings; Risda's block replanting programmes; land development administered by regional development authorities such as Ketengah, Kejora and Dara; and some youth schemes which are financed by state governments.

2. The Federal Land Development Authority (Felda) came into being under the Federation of Malaya Legislative Council, Principal Ordinance Number 20 of 1956, July 1st, 1956. Felda is headed by a full-time Executive Chairman. Two other important posts are those of the Deputy Chairman and the Planting Director. For a detailed study of Felda and its operations, see Ness, 1967.

Although created as an autonomous authority by British expatriate civil servants, Felda soon lost its functional autonomy not long after Malaya gained its independence in 1957. A new Ministry for Rural Development, formed in 1959, assumed responsibility for Felda, and thus Felda became another apparatus in the state bureaucracy. One reason for the Ministry's direct control over Felda could be justified by the fact that Felda's large projects are financed by Federal loans.

By 1981 Felda had developed 564,910 hectares of forest land into plantations, settling a total of 70,563 families, with holdings of 3.2 to 4 hectares for rubber and 4 to 4.8 hectares each in the case of oil palm (Felda, 1981). Between 1981-85 Felda developed a further 202,470 hectares and by 1990 it is expected to develop another 175,500 hectares (4MP, Table 10-3, p 306). By 1985 a total of 94,000 families have been resettled in Felda schemes (4MP, p 306), while up to 1988 another 18,500 families have joined the schemes (R5MP, p 139), thus making a total of 112,500 families resettled in Felda land schemes between 1956 to 1988.

Felda settlers receive a package deal - Felda develops the land, constructs the physical infrastructure and crops are planted before the settlers move into the schemes. Each family is allocated a basic house, to which extensions can be added later on.

The state claims that between 1980 and 1985 Felda settlers received annual incomes ranging from \$6000 in rubber schemes to \$14,700 in oil palm schemes (5MP, p 306), but whether these were gross or net incomes were not indicated in the Plan document. Considering that prices of commodities fluctuate according to demand, we would expect similar fluctuations in the



earnings of Felda settlers. For example, between 1986-88 the average net monthly earnings of settlers averaged at \$493 for oil palm schemes and \$545 for rubber schemes (R5MP, p 139). Due to further uneven increases in the prices of commodities, by the end of 1988 settlers in oil palm schemes received a higher net monthly income of \$871, compared with \$721 for settlers in rubber schemes (ibid.).

The figures of settlers' average earnings presented in the preceding paragraph portrayed that the economic position of Felda settlers looks impressive and well above the poverty income level of \$350 per month. In reality, figures on the earnings of settlers are quite misleading. Part of the costs incurred by Felda are passed on to the settlers and are charged to the Settlers' Loan Account. It has been estimated that on average a settler would have to repay Felda a sum of not less than \$17,000 over a fifteen year period at 6.25 percent interest per annum (Toh, 1982, p 70). Moreover, in instances of price stability Felda has a credit system which supplements fluctuations in settlers' income. Settlers in rubber schemes are guaranteed a minimum income of \$250 per month, while for those on oil palm schemes the minimum guaranteed income is \$350 per month. These credits are offered in the form of cash loans or credit purchases at Felda general stores. Settlers are thus burdened with these repayment deductions, which in the long term promotes settler indebtedness<sup>3</sup>.

As an instrument of poverty reduction, Felda schemes are extremely costly. Costs incurred per settler family increased from \$37,500 in 1980 to \$53,000 in

3. In the four years between 1980 to 1983, in the Bukit Rokan Utara scheme credit supplements amounted to \$28,158 per settler, while on the Pasoh 4 scheme the sum was \$10,092 per settler. Loans and credit supplements must be fully discharged before settlers can qualify for land titles. Although the magnitude of indebtedness may vary from one scheme to another, the problem begs concern - out of a total of more than 300 schemes developed by Felda up to the end of 1983, only six schemes have qualified for entitlement (Mehmet, 1986, p 69).



1985 (5MP, p 306) due to rising costs of material inputs and labour. Accordingly, in order to resettle only the poverty target-groups in the rural areas, comprising of 164,800 households in 1987 (R5MP, Table 3-6, p 52), would require an amount of not less than \$8734 million, or roughly equivalent to 42 percent of the sum of \$20,521 million (5MP, Table 7-10, p 244) of development expenditure allocated for poverty eradication and the restructuring of society for 1986-90.

At the current rate of resettlement of around 33,000 families for the 1986-90 five-year development plan period (R5MP, p 32), it would take roughly twenty five years to resettle the existing hard-core poor rural households, while resettling the entire rural poor households would take something like sixty years.

However, from the perspective of social protection, Felda do not provide settlers protection against disability or old age. Provisions for such contingencies is something settlers have to arrange on their own initiative. Furthermore, there is the question of second and perhaps third generation of the original settlers who have to face the problem of landlessness and unemployment in the settlements, and would have to migrate elsewhere in search of employment<sup>4</sup>. On that account, Felda's expensive resettlement programme is inherently more of a social policy exercise, with a high degree of built-in immediate political gain.

For that reason, Felda's land development programme could be seen as an approach which fails to combine welfare with growth, due to the negative

---

4. A survey of Felda land development schemes found that more than 86 percent of settlers preferred their children not to remain on the schemes - this is an indication of settler dissatisfaction (Chan and Lim, 1981).

linkage between welfare and growth. It is apparent that Felda's pronounced policies actively work against the creation of a climate of self-reliance and instead intensifies dependency, an attitude which is inimical to development.

In general, the impact of Felda's costly land development programme on income redistribution is marginal<sup>5</sup>, as it affects only a small proportion of the poor. During the Fifth Malaysia Plan period 1986-90, for example, only 33,800 out of the 403,200 poor rural households (R5MP, pp 32; 52) or approximately 8.4 percent of the rural poor benefit from Felda's investments. And, as was argued above, the "benefits" is open to interpretation, because even in hard times the protective provisions of the scheme involve loans which have to be paid back at high rates of interest and result in heavy indebtedness.

#### POVERTY ERADICATION AND AGRICULTURAL TARGET GROUPS

In the appraisal of the effects of policies designed to improve the incomes of agricultural target groups, the discussion will be limited to anti-poverty measures that aim to augment the incomes of rubber smallholders and rice farmers, chiefly because, as shown in Table 9.1, these two groups form 83 percent of the total poor households within the target groups in the rural sector

---

5. Felda's annual budget allocation for 1981 was \$538 million, derived primarily from the World Bank. At the end of 1981 Felda's cumulative drawings from the government totalled \$3.0 billion (Felda, 1981, p 12; Table 8, p 13).



## RUBBER SMALLHOLDERS

Rubber smallholders play a significant role in the production of rubber in Malaysia<sup>6</sup>. In 1987 there were some 207,750<sup>7</sup> households engaged in the rubber smallholding sector, producing 68 percent of the country's total rubber production of 15.8 million tonnes (R5MP, p 134). In terms of hectares, the rubber smallholder sector constituted about 80 percent of the total 1.89 million hectares under rubber cultivation R5MP, pp 134; 135).

Nevertheless, rubber smallholders form the largest single poor group in the country. Table 9.1 shows that, while all other poverty target groups in the rural areas registered declines in their absolute numbers, the number of poor households among rubber smallholders increased by 21 percent from 68,500 households in 1984 to 83,100 households in 1987.

Agriculture in the smallholding sector is primarily subsistence in nature. Approximately 80 percent of the farms are below 4 hectares in size, and of these 50 percent are below 2 hectares and 30 percent below 1.5 hectares in size. In order to maintain a minimum standard of living, a smallholder family would require not less than \$500 real income per month. Current trends in rubber prices show that only holdings of not less than 3 hectares in size can provide the desired level of income, and even that only after about twelve years from the time of planting (Ali, 1984, p 173).

---

6. The first ever rubber smallholding in Malaysia was established by Mohamed Isa bin Pandak Aris in 1887. In 1987, at the age of 124 years old, Mohamed Isa was conferred the distinguished Ridley Centennial Award (Ahmad, 1984, p 162).

7. This figure was derived at by calculations based on the 40 percent incidence of poverty in this sub-sector, equivalent to 83,100 households (as shown in Table 9.1).



**Table 9.1**

**Peninsular Malaysia: Incidence of Rural Poverty By Target Group, 1984 and 1987**

Target Groups	1984 Incidence of poverty (%)	No.of house- holds	1987 Incidence of poverty (%)	No.of house- holds
Rubber smallholders	42.7	68,500	40.0	83,100
Padi Farmers	57.7	70,500	50.2	54,400
Coconut smallholders	66.2	6,700	39.2	4,900
Fisherman	26.1	10,700	24.5	10,700
Estate Workers	19.6	16,400	15.0	11,700
Total		172,800		164,800

Source: Review of Fifth Malaysian Plan, 1989,  
Table 3-6, p. 52 (adapted).

In contrast, rubber holdings in Felda schemes are 3.2 to 4 hectares each in size. Unlike settlers in Felda schemes, rubber smallholders do not have, a guaranteed minimum income<sup>8</sup>. Thus in times of hardship caused by fluctuations in commodity prices rubber smallholders have to rely on personal savings or seek credit arrangements elsewhere at high rates of interest.

Table 9.2 compares the incidence of poverty and the mean monthly income of rubber smallholder households between 1984 to 1987. With an increase of only \$18 in their mean monthly income between 1984 to 1987, plus the fact that figures shown are in current prices, rubber smallholders are actually not anymore better-off in 1987 than in 1984. Furthermore, in 1987 the mean monthly income of \$238 of poor households in this sector was only 44.5 percent of the overall mean monthly household income of \$535 in the same sector.

There are no specific programmes for rubber smallholders. Apart from the efforts to improve the processing and marketing of smallholders' rubber, other measures aimed to improve the rubber industry, especially through generating new techniques and replanting schemes, are directed both at the estate and the smallholder sectors. Likewise, the state's in situ development programmes<sup>9</sup>, which encourages farmers to cultivate cash crops (rubber, oil palm and cocoa) and food crops such as vegetables and fruits and rear livestock such as sheep are meant for farmers in general.

---

8. \$250 per month for settlers in rubber schemes and \$350 a month for those in oil palm schemes.

9. For the Fifth Malaysia Plan period (1986-90) the allocation for in situ development programmes totalled \$5094.44 million, equivalent to 43 percent of the total allocation of \$11,799.95 million for agriculture and regional development (5MP, Table 10-5, p 329).

**Table 9.2**

Incidence of Poverty and Mean Monthly  
Household Income of Rubber Smallholders,  
1984 & 1987

	Incidence of poverty (%)	No.of Poor households	Mean Income the poor	Overall Mean Income
<b>Rubber smallholders</b>				
1984	42.7	68,500	\$220	\$520
1987	40.0	83,100	\$238	\$535
<b>Peninsula Malaysia Rural</b>				
1984	24.7	402,000	\$208	\$524
1987	22.4	403,200	\$224	\$853

Source: Review of Fifth Malaysia Plan 1989,  
Table 3-6, pp. 52-53 (adapted).



Replanting schemes, in particular, are biased towards the estate sector. Due to their large hectares, estates are able to replant gradually, whereas smallholders incur a higher opportunity cost during the seven-year gestation period. In order to increase replanting by smallholders, the state provided larger replanting grants to smallholders than to estates. During the Third Malaysia Plan (1976-80) the replanting grant was increased from \$2223 to \$2964 per hectare for holdings of 4.1 hectares and below; nevertheless, replanting was carried out by larger holdings instead of smaller holdings. Despite the increase in replanting grant, the rate of replanting decreased from 34,500 hectares per annum during the Second Malaysia Plan period (1971-75) to 21,500 hectares per annum during the Third Malaysia Plan period (1976-80). In a further effort to encourage replanting by smaller holdings, the replanting grant was further increased to \$5434 per hectare for holdings of 4 hectares and below and \$3705 for holdings of more than 4 hectares (4MP, p 266). Still, the rate of rubber replanting further decreased to 18520 hectares per annum during the Fourth Malaysia Plan period (1981-85), benefiting something like 35 percent of smallholders (5MP, p 308).

Smallholders' incomes are affected by methods used in the production of latex. Smallholders are discouraged from using chemical yield stimulants (purportedly the stimulant will shorten the life span of the rubber trees) whereas estates are allowed to do so (Snodgrass, 1980, p 174). Furthermore, estates are able to use new tapping techniques which gives a higher yield with less frequent tappings. Besides, smallholders' output is normally sold as unsmoked sheet, usually as a lower grade product, thus resulting in a lower price.

Above all, it is the structure of the export tax that has an extremely regressive impact on the income of rubber smallholders. Khoo (1978) reveals that the

income-tax equivalent of the direct tax burden on the average rubber smallholder was 27 percent, or the equivalent of the tax rate of those earning a gross income of \$25,000 a year, which is roughly about eight times the income of a rubber smallholder with holding of two hectares in size.

Part of the export tax is channelled into what is called "Fund B", which is a fund for replanting grants. It was pointed out above that these grants benefit smallholders with larger holdings rather than those with smaller holdings. Also, the award of larger replanting grants to smallholders has resulted in the sub-division of estates into holdings of not more than 40 hectares each, so as to qualify for those grants.

In 1977 the total replanting taxes (also known as cess) collected from smallholders was estimated at \$1214.05 million, which was almost nine times the amount of \$137.05 paid out in replanting subsidy (Khoo, 1978). For that reason, it is the smallholders who are subsidising the state in its effort to distribute replanting grants. Certainly smallholders contribute a far greater sum towards a subsidy system which they should contribute much less and receive greater benefits.

From the above discussion, this study believes that the government's effort in increasing the production of rubber smallholders has resulted in differential benefits accruing to smallholders and the estates. Estates and smallholders with large holdings have gained more from replanting policies. But by far the most inequitable measure affecting rubber smallholders is the export-tax system, and that far from being subsidised, smallholders are actually paying more in the form of replanting cess compared with the amount they receive in the form of replanting grants.



## PADI FARMERS

Padi farmers form the second largest concentration of the population who live in poverty in Peninsula Malaysia. From the data presented in Table 9.3, it is estimated that in 1987 there were 108,800 households engaged in padi farming compared to around 123,680 households in 1984; thus denoting a decrease of around 12 percent of padi farmers between 1984 and 1987. Despite almost twenty years after the New Economic Policy was first implemented, the incidence of poverty amongst padi farmers have not decreased below 50 percent. Furthermore, the mean monthly household income of poor farmers, at 68 percent of the official poverty line income of \$350 per month, was less than half of the overall mean monthly household income in the padi sector. On the whole, padi farmers appear to be less well-off than rubber smallholders.

**Table 9.3**

Incidence of Poverty and Mean Monthly  
Household Income of Padi Farmers, 1970-1987

	Incidence of poverty (%)	No. of Poor house- holds	Mean Monthly Income of the poor (\$)	Overall Mean Monthly Income
1970	88.1	123,400	n/a	n/a
1976	80.3	150,900	n/a	n/a
1984	57.7	70,500	196	406
1987	50.2	54,400	222	462

Sources: Fifth Malaysia Plan 1986-90, Table 3-1, p. 86;  
Review of the Fifth Malaysia Plan, 1989, Table 306, p.52; [adapted].



Geographically, the major padi farms of Malaysia are situated in the "rice bowl" or granary areas of the Muda plain in Kedah - managed by the Muda Agricultural Development Authority (MADA); and the Kemubu basin in Kelantan - managed by the Kemubu Agricultural Development Authority (KADA). Other rice growing areas are found in Province Wellesley, the Krian District in North Perak, and the Tanjung Karang area in Selangor. From Table 9.4 it can be deduced that the two major rice producing areas of MADA and KADA produced roughly 47 percent of the country's total rice production in 1987. The states where the major "rice bowls" are located are predominantly populated by Malays, thus meaning that padi farming is primarily a Malay activity.

**Table 9.4**

Peninsular Malaysia: Padi Areas and Production,  
1986 and 1987.

	1986	1987
Planted Area (000 hectares)	711.1	609.6
Total Production (000 tonnes)	1721.6	1662.9
MADA Production (000 tonnes)	803.1	644.7
KADA Production (000 tonnes)	142.9	127.2

Source: Treasury Economic Report 1988/89, Table 3.4,  
p. 66.

Major improvements in the rice sector involved investments primarily in drainage and irrigation facilities, to enable double-cropping in the existing "rice bowls", the provision of input subsidies, and improved marketing and credit facilities. As shown in Table 9.5, public expenditure on drainage and irrigation facilities has been at most times a major component of the total public expenditure on agricultural development. For example, during the First Malaysia Plan period (1965-70) 36 percent of the total public expenditure allocated for the agricultural sector was allocated for drainage and irrigation; which was mainly for the construction of World Bank-financed irrigation schemes in the Muda and Kemubu regions. From the perspective of welfare, the large-scale irrigation systems contain an element of subsidy.

**Table 9.5**

Public Development Expenditure for Drainage and Irrigation, 1966-1990

Five Year Development Plan Period	Actual Expenditure (\$ million)	Expenditure as % of Total for Agricultural Development
1966-70	328.5	36.0
1971-75	257.43	11.3
1976-80	778.61	12.0
1981-85	1451.26	19.7
1986-90	337.44	2.9

Sources: Second Malaysia Plan, Table 9.4, p. 146;  
Fourth Malaysia Plan, Table 15-3, pp 290-91;  
Fifth Malaysia Plan, Table 10-5 p. 329;  
(adapted).

As a result of improved drainage and irrigation facilities double-cropping of padi increased from 115,744 hectares in 1970 (Selvadurai, 1972, p 59) to 216,514 hectares or 33 percent of the total area under padi in 1979 (TER, 1980/81, p 105). Despite the vast amount of public expenditure allocated for drainage and irrigation, Huang (1972) reveals that the more well-off farmers, who depend entirely on padi farming as their source of income, are the ones who quickly took advantage of padi double-cropping. Subsequently, they produced a significant amount for the market due to their above-average farm sizes, ranging from 1.2 hectares to 3.6 hectares, and fertile soil. On the contrary, double-cropping was less successful with farmers who cultivated smaller-sized farms, ranging between 0.4 hectares to 0.8 hectares, and where the soil is less fertile; as a result, these farmers produce mainly for their own consumption (Huang, 1972, p 123).

Precisely because the subsidy element contained in the large-scale irrigation systems is biased towards the well-off farmers, the impact of drainage and irrigation facilities on poverty redressal amongst padi farmers is not impressive. By the late 1970s as many as three out of four padi households were still in poverty, unable to earn an income above the poverty line income level of \$1300 in 1978 prices (Kassim et al, 1983, p v). Similarly, a World Bank evaluation study of the rice growing areas of Kemubu and Muda presents dismal conclusions on the equity and income distribution effects of rice schemes. It is the owners and tenants of larger-sized farms who have achieved major income improvements. In 1979 owners and tenants of small farms had incomes which were 57 percent and 72 percent of the official poverty line income; compared with 54 percent and 57 percent respectively in 1966 (World Bank, 1981, pp 17; 26). The position of poor padi farmers does not appear to have changed greatly almost a decade later - earlier on in this



section it was pointed out that in 1987 poor padi households had incomes amounting to only 68 percent of the official household poverty line income of \$350 per month.

Two basic factors that contribute to the poverty of padi farmers are the land tenure system and the size of the plots that they cultivate. Gibbons et al (1980, p 20) cite that the average size of padi plots are 1.78 hectares. Tenancy is common, with 36 percent of padi farmers who are pure tenants, another 22 percent who are owner-tenants, while 42 percent cultivate land belonging to household members. Of these three major tenure categories of padi farmers, on average it was the owner-tenants who cultivate the larger farms, averaging 3.82 hectares in size (Gibbons et al, 1980, p 19, Table 1.5).

Studies carried out by the World Bank (1981) and Gibbons et al (1980) conclude that land reform is essential in order to correct the maldistribution of padi land ownership, and therefore eradicate poverty and ameliorate income inequalities amongst padi farmers. Malaysia's agricultural policy emphasise more on the cultivation of cash crops like rubber, oil palm and cocoa. New land development schemes are designed primarily for the cultivation of rubber and oil palm. What is more critical is the country's ability to produce sufficient food to feed its population. Malaysia has not achieved its target in rice self-sufficiency. In 1983 the self-sufficiency ratio was 77.3 percent (TER, 1983/84, p 105). By 1988, due to the decrease in padi farms, the ratio had decreased to about 59 percent (TER, 1988/89, p 67); thus the domestic consumption requirements had to be supplemented by rice imported mainly from Thailand. Therefore, what is urgently needed are programmes of land development and land redistribution, designed to give padi farmers access to larger plots, so as to enable them to produce enough rice, not only to

increase their income, but also with the objective of achieving self-sufficiency in rice production.

Unlike some other Asian countries, political and economic circumstances in Malaysia are not conducive to a radical land reform programme that seeks to transfer tenants into owner operators. In Taiwan and Japan, for example, landowners were compensated with bonds and former tenants were deemed owners. In China and Myanmar land has been expropriated by governments and held in public ownership; farmers do not pay rent but are forced to sell their output to the state at fixed prices - farm income may be low but not as low as might have been true with high rents (Barker, Herdt and Rose, 1985, p 35).

In Malaysia, what might be a possible alternative to land reform would be the development of additional areas for rice cultivation. For instance, cropping systems based on rice could be introduced in suitable medium lowlands regions and gentle sloping terraces, where rainfall is not adequate for a second rice crop in a year. Crops such as sweet potato, maize, legumes and vegetables could be planted in rotation with rice.

The experiences of other Asian countries could be taken as examples. Low yield should not be a major issue if the commitment to self-sufficiency in rice production is taken seriously by the state<sup>10</sup>. In the Khorat Plateau in northeastern Thailand, more than 3.5 million hectares are under rice cultivation (equivalent to over 40 percent of Thailand's total rice area); but only 100,000 hectares are irrigated. The soils of the plateau are infertile and

---

10. In 1980, Malaysia implemented a policy of providing enough fertilizer free to padi farmers to cultivate up to 6 acres or 2.5 hectares of land - a policy which is justified on welfare grounds rather than on its expected effect on production.



average rice yield is less than 1.5 metric tons per hectare compared with about 2 metric tons per hectare for the rest of Thailand. Farmers in Taiwan and the Guandong Province in South China practice highly intensive rice-based cropping systems. In Indonesia, where pressures for the intensive use of land are very high, particularly in Java, and where the quality of irrigation varies considerably, appropriate rice cropping techniques have been developed; these techniques allow more intensive cropping patterns under variable water conditions. In rainfed and poorly irrigated areas rice is directly seeded before there is sufficient rainfall to flood the field (Barker, Herdt and Rose, pp 22; 24-26). These are some of the examples that Malaysian rice policy makers could examine in greater detail.

Another important element of the anti-poverty measure in the rice sector is the rice support scheme<sup>11</sup>. Rice farmers are guaranteed a minimum price for their marketed produce, and apparently this ensures a higher and stable income. This subsidy scheme is financed through a government direction by which rice importers are required to purchase locally-grown rice in return for permits to import cheaper rice from abroad. The cost of purchasing locally-grown rice at the government-approved price are then passed on to the consumers, who bear the real cost of the subsidy<sup>12</sup>. My assumption is that for the price of rice paid by consumers something like 1.5 to 2 percent contributes to the subsidy component. Rice is the staple food item in the Malaysian diet. Thus all rice buyers, including the low income people in the rural areas who do not produce rice or do not produce enough rice for their own consumption, are burdened in favour of farmers of larger padi farms who produce surpluses for sale in the

11. Rice price control measures were introduced in May 1974 (TER, 1974/75, p 62).

12. In September 1990, as a pre-general election pledge, the state announced its intention to increase the rice subsidy by 50 percent, from \$16.54 to \$24.81 per 100 kilograms of rice (FEER, 27.9.1990).



market. In summary it could be deduced that, rather than being consumer-biased, the Malaysian rice policy is producer-oriented, often with the welfare of producers with larger farms as the main concern.

Evidence shows that agricultural purchase price policies do not always produce gains for consumers. Paukert (1988b) cites several examples where price support for rice growers in Japan result in gains for producers and losses for consumers; while in Thailand sugar and maize price policies redistribute income from consumers to producers. In Africa agricultural purchase price policies are the major factor in maintaining and increasing disparity in favour of producers as compared to consumers (Paukert, 1988b, pp 304; 312).

Generally speaking, measures aimed at increasing the productivity of Malaysian padi farmers benefit farmers who cultivate larger farms within the major irrigation schemes of Muda and Kemubu regions. Farmers and policy makers too frequently associate capital intensity with modernization. Agricultural innovation, for example the introduction of combine-harvesters in the Muda region, had caused big reductions in agricultural labour requirements and displaced landless workers, previously employed as padi harvesters (Hart, 1989, p 816). For households with tiny holdings of less than 1.1 hectares mechanisation was accompanied by the diversification of income sources - it meant the feminisation of agricultural activities because the men had to shift into low-paid non-agricultural jobs as lorry drivers or workers on construction sites, while the women had to take over most of the agricultural work on their own tiny farms in addition to working as agricultural wage-labour in the transplanting job (Hart, 1989, p 827). Besides, the construction of rural roads in the Muda and Kemubu regions brought about higher land prices, which further encouraged the consolidation of land into larger holdings, thus forcing out poorer farmers - even though in economic terms the Muda irrigation

project, with an internal rate of return of 18 percent, is considered as one of the most successful rural development project financed by the World Bank (World Bank, 1987, pp 33-35). At the same time, higher incomes that accrue to farmers of larger-sized farms are partly the consequence of the rice support policy which heavily burdens the poor.

### RURAL ANTI-POVERTY PROGRAMMES - A SUMMARY

In summary, from the discussion on poverty redressal programmes in the rural areas, it may be concluded that the state's development strategy paradoxically reinforces some aspects of poverty while appearing to relieve at least some of it in the rural sector. In the case of land development only a small proportion of landless farmers are absorbed into new development schemes. Technical innovations and subsidies in the rubber sector are to the advantage of estates and owners or operators of larger holdings rather than smallholders who own or work on small plots.

Thus in the absence of any major structural changes in the existing land ownership and tenure system (where there is a higher concentration of land in the commercial cash crop plantation sector), within a context of agricultural modernization and economic growth, it would be expected that poverty and persistent income inequalities would continue to prevail amidst poverty target groups in the rural sector. As Ghai and Radwan (1983, p 20) point out, public expenditure helps to increase income inequalities in rural areas. Poorer households appear to be at a disadvantage when it comes to the indirect effects of projects; the net impact primarily have been on the lesser poor, particularly by raising land values and increasing the concentration of land ownership.



Malaysia has abundant land resources and with a large proportion of the population living in the rural areas, and in order to increase the country's self-reliance on food production it would be sensible for policy makers to alter some of the priorities accorded to the cultivation of rubber and oil palm. The cultivation of food crops such as vegetables<sup>13</sup> and tropical fruits for domestic consumption must be expanded. The rearing of livestock such as cattle, sheep and goats in old rubber holdings is another way of improving the incomes of farmers as well as increasing the country's food self-reliance.

To ensure that projects are beneficial to the poorest in areas of high inequality is a difficult task, as this is not always politically feasible. Planners and policy makers should negotiate with local power groups before the implementation of anti-poverty projects, so as to guarantee the appropriate involvement of the poorest groups. Still, commitment on the part of the state is a crucial factor so that the poorest groups are not displaced in the political bargaining.

13. There are several reasons why smallholders should be given the incentive to cultivate vegetables. During 1973-82 vegetable imports formed about 7 percent of the total annual food imports. Vegetable imports had increased by 2.75 times in current values from \$72 million in 1973 to \$156 million in 1982 (Dagap, 1987, p 4). Furthermore, vegetable cultivation is a productive industry. As illustrated below, the net returns per hectare for vegetable crops are higher than those of traditional export crops (Dagap, 1987, p 19).

Crops	Maturity Period (days)	Net Returns per hectare ('000\$)
Cabbage	100	7.4
Chillies	80 - 150	16.1
Long beans	50 - 120	2.7
Okra	60 - 120	1.9
Sweet potato	120	4.9
Rubber		1.3
Oil palm		1.7
Cocoa		1.8

Source: Dagap, 1987, Table 1.8, p 20 (adapted)



## POVERTY ALLEVIATION PROGRAMMES IN THE URBAN SECTOR

In this section the focus is on poverty redressal programmes in the urban sector. Some of the measures aimed at ameliorating urban poverty include the creation of employment opportunities for new entrants to the labour market, the unemployed and the migrants from the rural areas; aid for those in the informal sector; the provision of low-cost housing and other social services for improving the quality of life of the urban poor.

Although there are several anti-poverty redressal programmes as mentioned in the above paragraph, it is the creation of employment through industrialization that represents the main component of the urban anti-poverty programmes. Thus it is proposed that this section examines the state's industrialization policy since 1958, and then attempt to evaluate its performance in terms of employment creation. Basically, Malaysia had undergone two distinct phases of industrialization expansion; namely the import substitution phase from 1958 to 1968, and the export-orientation phase beginning in 1968.

### IMPORT-SUBSTITUTION POLICY

Recommendations for industrial expansion, as a means of reducing the country's dependence on the two commodities of tin and rubber, was first forwarded by a World Bank mission in 1955. Subsequently, an Industrial Working Party was appointed in 1957. By 1958 the Pioneer Industrial Ordinance was made a legislation, which granted tax concessions to firms in pioneer industries in the form of relief from 40 percent profit tax for a period of two to eight years depending on the size of the investments. In order to protect local infant industries the state levied tariffs and quotas on imports. In

addition, the state provided the infrastructure, subsidized industrial sites and utilities and made provisions for cheap and improved credit facilities. These inducements were aimed at attracting capital, particularly foreign capital.

A number of factors facilitated the establishment of foreign firms, such as the relatively stable political climate, and the state's promise that foreign firms will not be nationalised, rather they were given the freedom to repatriate their profits. A number of foreign firms were established in the 1960s. Jomo and Shari (1981, p 244) cite that in 1968 these firms accounted for 28 percent of value added in the manufacturing and for nearly half of the manufacturing sector's growth in the preceding eight years. These pioneer firms were predominantly foreign-owned and heavily oriented towards import-substitution, producing non-durable consumer goods such as toiletries and household equipment. In 1968, for example, 70 percent of value-added in all pioneer establishments came from foreign-owned firms (Jomo and Shari, 1981; p 245), thus increasing the proportion of the already-high share of foreign ownership in the Malaysian economy. Geographically, these pioneer industries were located in the urban centres of the west coast of the peninsula, particularly in Petaling Jaya and Johor Bahru.

The results of the industrialization process were quite impressive. Manufacturing output grew at a fairly rapid rate of 17.4 percent between 1959 and 1968, which increased the manufacturing sector's share in the GDP from 8.5 percent in 1960 to 12.7 percent in 1968; while employment in this sector increased from 6.1 percent of the labour force in 1957 to 9.1 percent in 1967/68, equivalent to an increase in absolute numbers from 126,200 to 214,800 (Lim, 1973, pp 109; 112).



While it true that import-substitution firms helped to reduce unemployment, it also had some off-setting effects on poorer groups - which were not always helpful. Firstly, because the state introduced tax-holiday schemes and other incentives, in reality the tax-payers were subsidising the industrial programmes. Secondly, the restriction against cheap imports also meant that consumers including the poor, had to pay higher prices for locally-produced goods.

### EXPORT-ORIENTED INDUSTRIALIZATION POLICY

By the mid-1960s, however, the import-substitution strategy appeared not to be able to absorb the majority of the urban unemployed labour force. Growth of this sector was limited partly by the small consumer base, and the relatively low income of the consumers. Thus a new industrialization strategy that could generate more employment had to be pursued by the state. The Investment Incentives Act was introduced in 1968, in order to attract multinational firms.

At the same time multinational firms in the West and Japan had begun relocating their subsidiaries in developing countries for the purpose of manufacturing finished products for sale by the parent company to consumers in the home country or to provide components and sub-assemblies to parent company plants (Lim, 1978, p 7). The motivating factor for this new global redivision of labour, as opposed to primary-resource processing and import substituting industries, was initiated by the cheap and abundant supply of labour in developing countries. Export-oriented multinational firms are labour intensive, thus labour forms a large proportion while capital forms a smaller proportion of the total manufacturing costs.



By the mid-1970s Malaysia had attracted a considerable number of multinational firms, the most prominent of these are the electronics industry, like Japan's Matsushita, which employs mainly women. These foreign-owned industries are few and large-scale and they vary according to the amount of paid-up capital and the number of employees for each industry. For example, the Japanese Pen group of companies in the textile industry operate two companies in the Prai Free Trade Zone. Penfabric, which employs 1200 employees, is a textile industry with a large paid-up capital of M\$80 million; while Pentex, with almost 2700 employees, is a labour-intensive textile products factory running on only a quarter of the paid-up capital of Penfabric (Limqueco, et al, 1989, p 56). In recent years Taiwan has become the largest source of foreign investment in Malaysia. In 1990 investments from Taiwan tripled to \$6.34 billion from \$2.69 billion in 1989. During the same period investments from Japan increased by 56.5 percent, from \$2.69 billion in 1989 to \$4.21 billion in 1990. The total foreign investment in 1990 amounted to \$17.63 billion, as compared to \$10.54 billion for domestic investment (FEER, 24.1.1991, p 51).

Malaysia is effectively subsidising the establishment of these firms in the specially-created Export Processing Zones, where they enjoy minimum custom formalities and duty-free import of raw materials. Industrial land close to good infrastructure is cheap at \$6 per square foot, equivalent to \$64.58 per square metre (FEER, 7.9.1991, p 97).

Undeniably, these export-oriented firms are considerably successful in terms of employment creation. Table 9.6 shows that between 1970 to 1980 the average annual rate of growth in employment in the manufacturing sector was 7.6 percent, which was the highest among all sectors. The number of employees in

**Table 9.6**

**Malaysia: Employment Estimates by Sector 1970-1988**

	1970		1980		1985		1988		Av Ann Growth Rate (%)	
Sector	'000	%	'000	%	'000	%	'000	%	1971-80	1981-85
Agriculture	1714.6	50.5	1910.9	39.7	1953.2	35.7	1908.3	31.3	1.9	0.4
Mining & Quarrying	88.6	2.6	80.1	1.7	60.3	1.1	37.2	0.6	0.1	-5.5
Manufacturing	386.5	11.4	755.1	15.7	828.0	15.1	1012.6	16.6	7.6	1.9
Construction	136.7	4.0	270.2	5.6	378.7	6.9	356.4	5.9	6.8	7.0
Utilities	26.5	0.8	31.0	0.6	39.9	0.7	45.0	0.7	6.5	5.2
Transport & comms.	115.1	3.4	209.5	4.3	264.9	4.9	261.1	4.3	5.3	4.8
Services	371.1	10.9	676.2	14.0	846.3	15.5	1070.3	17.6	5.7	4.6
Finance, etc.	31.5	0.9	78.3	1.6	101.6	1.9	211.6	3.5	5.2	5.3
Govt. services	396.6	11.7	658.2	13.7	819.5	15.0	844.3	13.9	6.0	4.5
Other services	128.7	3.8	147.4	3.1	175.9	3.2	340.7	5.6	5.4	3.6
TOTAL	3395.9	100.0	4816.9	100.0	5468.5	100.0	6087.5	100.0	4.1	2.6
Labour force	3681.9		5108.9		5917.1		6622.2			
Unemployment	286.0		292.0		448.6		534.7			
Unemployment Rate	7.8		5.7		7.6		8.1			

Sources: Fourth Malaysia Plan 1981-85, Table 4-6, p. 81;  
Fifth Malaysia Plan 1986-90, Table 4-6, p. 138;  
Review of the Fifth Malaysia Plan, 1989, Table 4-2, p. 87;  
[adapted].



the manufacturing sector, as a proportion of the total employed in the country, increased from 11.4 percent in 1970 to 15.7 percent in 1980. Subsequently the rate of unemployment registered a substantial reduction from 7.8 percent of the labour force in 1970 to 5.7 percent in 1980.

Although the economic recession in the mid-1980s resulted in redundancies, particularly in the electronics industry, by 1988 the performance of the manufacturing sector improved largely due to a growth in external demand and recovery in domestic sales. Between 1986 to 1988 a further 157,000 jobs were created, mainly in the export industries such as electronics and electrical products, clothing, plastic products and plywood. During the same period the manufacturing sector grew rapidly at 12.7 percent per annum, increasing its share of the GDP from 20.9 percent in 1986 to 24.4 percent in 1988 (Malaysia, 1989, pp 86; 180).

Industrial expansion is also used as a tool in the state's effort to reduce occupational differentials between the major ethnic communities. As shown in Table 9.7, industrial expansion has led to a striking increase in the proportion of Malays in the industrial labour force, from 19.6 percent in 1970 to 53.5 percent in 1980; compared with a decline in the number of Chinese workers, from 72 percent to 45 percent respectively. Between 1973 to 1978 employment in the labour-intensive industries of electrical and electronics, and textiles and clothing, increased at average rates of 22 percent and 13 percent respectively (4MP, p 85). McGee et al (1989, p 268) mention that much of the new employment creation in industries occurred in the five major urbanised regions of Johor Bahru, Melaka, Kuala Lumpur, Kelang and Penang; thus contributing to overall urban growth, and that in 1980 these urban centres contained 56 percent of those employed in the manufacturing sector.



**Table 9.7****Proportion of Malays and Chinese in the Manufacturing Labour Force.**

Year	Malay Workers (%)	Chinese Workers (%)
1957	19.6	72.0
1970	28.9	65.2
1980	53.5	45.4

Source: McGee et al (1989), Table 14.1, p.268.

**URBAN ANTI-POVERTY PROGRAMMES - A SUMMARY**

It is true that export-oriented multinational industries have played a role in the creation of employment in Malaysia, but on the other hand, in its effort to reduce unemployment, Malaysia has incurred high costs. The granting of tax reliefs to multinational firms has meant substantial losses of revenue. like the repatriation of profits by foreign investors, estimated at \$1.8 billion in 1980 (Hua, 1983, p 186). Earnings of production workers in the manufacturing sector are low; in 1988 they formed 23 percent of the total urban poor households (Malaysia, 1989, p 57). Unlike the rural farmers, where additional efforts in generating income, like the rearing of livestock and poultry, is available, the urban poor do not have such alternatives.

Furthermore, the notion that multinational firms exploit women workers is a well-known fact. In its eagerness to attract foreign firms, particularly the

multinationals that were seeking for cheap wage rates in order to increase profits, the state impenitently promoted the qualities of women workers<sup>14</sup>. Lim (1978, p 7) cites that Malaysian investment brochures explicitly promote the manual dexterity of female workers.

For many years the electronics industry has been the driving force behind Malaysia's switch from a commodity producer to a manufacturing power. The country is now the world's biggest exporter of semiconductor devices and the third largest producer, after Japan and the United States (FEER, 7.9.1989, p 98). Women production workers make up 90 percent of the total assembly workforce in the electronics factories (Hua, 1983, p 188). Production workers in the textile and electronic industries, where the labour force are mainly women, earn monthly wages of \$277 and \$317 respectively, compared to \$570 and \$425 for those in the male-dominated machinery and motor vehicle industries (Ministry of Labour, 1986, Table 9-3, p 153)

Malaysia is devoid of any minimum wage legislation. State trade missions openly advertise that workers in the electronic industry are not permitted to join trade unions (Hua, 1983, p 191). Furthermore, the Industrial Relations Act (Amendment) of 1971 safeguards the interests of the employers. Under this Act, in industries where the formation of unions are allowed, union officials are prohibited from holding posts in political parties, and union funds are prohibited from being used for political purposes. Meanwhile, the Act strengthened the power of management, for example, employers could sack workers without having to state the reason.

Furthermore, multinational firms are "foot-loose" in character, meaning that they can easily locate their establishments elsewhere particularly in countries

---

14. The economic role of women will be discussed further in Chapter 10.



which offer greater incentives, or even close down altogether in the event of economic depression in the industrial economies. Thus in an effort to maintain the continued existence of multinational firms in the country, the state always has to ensure political stability and industrial peace and legislate strict labour laws which effectively produce a passive workforce.

### PUBLIC EXPENDITURE AND INCOME REDISTRIBUTION

Apart from the need to accelerate economic growth, the poverty alleviation strategy also calls for changes in the delivery system of services in the social sector, such as education, health, housing and welfare services, so as to benefit the rural population. In particular education is known to be the key variable in explaining poverty in Malaysia<sup>15</sup>.

The purpose of this section is to analyse the redistributive effects of public expenditure and assess to what extent it has contributed towards narrowing disparities between the rural and urban areas. Snodgrass (1975, p 283) asserts that in Malaysia public expenditure is not used as a tool for redistributing income per se but rather the redistributive benefits accruing from public expenditure is a by-product of the programmes to redistribute income from the non-Malays to the Malays.

In general public expenditure have frequently been found to be urban-biased, while those that reached the traditional sector often are proved to be inadequate

---

15. Mazumdar (1981) asserts that low educational attainment systematically contributes to poverty. Labour earnings are a significant determinant of poverty; lower educational levels result in low earnings, and that "education remains important in accounting for different proportions of Malay and Chinese who are low earners" (Mazumdar, 1981, p 364).



and confined to the relatively more progressive areas (Lipton, 1977). As an example, in Malaysia, around 1970, the domestic output per person outside agriculture was 3.8 times greater than that in agriculture (Lipton, 1977, Table 5.4, pp 435-37).

A study by Meerman (1979) analysed the effects of public expenditure in Malaysia. He calculated the costs of government outputs in each of the major programmes and took into account the actual utilization of these outputs by households. Using these two sets of information Meerman estimated government spending according to per capita and per household. The study was confined to public expenditure allocated to four major government programmes, namely, education, medical services, public utilities and agriculture, for the year 1974.

Major findings of the Meerman study was that per capita expenditure on the public programmes covered by the study was greatest for the highest income quintile and lowest for the lowest quintile. The poorest quintile is at a disadvantaged position in respect of every service except the medical service. As shown in Table 9.8, the distribution of public expenditures on the services included in the study tended to benefit those in the upper quintiles more than poor households, which Meerman attributed was largely explained by the extremely high share of higher education enjoyed by those in the wealthiest quintile. Overall per capita expenditure for the lowest quintile was \$109, or 23 percent less than the sum of \$142 allocated for the wealthiest quintile.

**Peninsula Malaysia: The Distribution of Basic Public Services. By Basic Partition. 1974**

284

To illustrate further the biased effects of Malaysian public expenditure, this discussion will analyse, albeit briefly, the redistributive benefits of education, particularly higher education, and the health services. These two social services have been chosen for inclusion in this discussion because, as shown in Table 9.9, between 1971-90 development expenditure on these two social services formed a major proportion of the total development expenditure allocated for the social sector.

**Table 9.9**

Public Development Expenditure  
for Education and Health Services, 1971-90.

Development Plan Period	Actual Expenditure (\$)		% of Allocation on Social Sector
	Education	Health	
1971-75	881.43	218.82	70.85
1976-80	2152.79	529.42	49.0
1981-85	4840.09	762.74	54.2
1986-90	5582.78	714.98	70.0

Sources: Fourth Malaysia Plan, 1981-85, Table 6-2, pp. 118-125;  
Fifth Malaysia Plan, 1986-90, Table 7-2, pp.226-227, Table 7-9, p. 242; [adapted].



## EDUCATION

One of the key concept in the restructuring of society in Malaysia has been identified as the redistribution of high income occupations to reflect ethnic balances in the population. One of the primary agents selected to achieve this goal is the educational system. In Malaysia it is widely assumed that increased educational opportunities for the low income groups, especially Malays, will permit them access to better employment. Thus public expenditure on education is commonly believed to be the primary social investment in achieving progressively redistributive results.

However, the expansion of education may equally lead to the opposite of the effect intended, resulting rather in greater inequality in incomes and overall well being. For example, Boudon (1974) found that in Western societies "educational growth as such has the effect of increasing rather than decreasing social and economic inequality, even in the case of an educational system that becomes more egalitarian" (Boudon, 1974, p 187).

In Malaysia, the emphasis on education, particularly higher education, as a means of achieving social and upward mobility has resulted in education being valued as an investment good (Tham, 1979). Consequently, educational performance and certificate qualifications are regarded by students and parents, while prospective employers place an excessive emphasis on paper qualifications. In an appraisal of the economic evaluations of public expenditures in Malaysia, Hoerr (1973) concluded that Malaysia is or soon will be over-investing in education.

A study by Mehmet and Yip (1985) on access to university education reveals that Malaysian public expenditure on higher education is heavily regressive in nature. In their survey it was found that poor households attained only 12.3 percent of state scholarships, while the richest 10 percent of households accounted for about 25 percent of the scholarship awards.

Meerman (1979) discloses the unequal accessibility and regressive distribution of public expenditure on higher education, and that the distribution of public outlay on education was especially pro-rich. Column 2 of Table 9.8 presents statistics on enrollment for each educational level, partitioned by quintiles of household per capita income for assisted schools. The wealthiest quintile, with an annual household per capita income of not less than \$2620, enjoyed an extremely high ratio of 5.5 percent, as compared to only 0.7 percent for the lowest quintile. in post-secondary education enrollment rate. Thus Meerman (1979) concludes that "effective demand at each educational level is a positive function of income" (Meerman, 1979, p 108).

## HEALTH SERVICE

Public expenditure allocated for the health service is a clear example which indicates uneven development of a social service that is urban-biased in its delivery system. Meerman (1979) analysed data for the consumption of each type of medical service by income quintiles and race, and concluded that the government had achieved the goal of providing medical care to Malaysians irrespective of income. However, Meerman (1979) pointed out that the quality of medical treatment received by patients varied between income

classes. People of the lower income group usually seek medical care at government out-patient clinics, which are manned by relatively less inexperienced doctors. On the other hand, the rich in the urban areas are able to attend private clinics or hospitals, usually manned by more experienced and highly qualified health personnel.

The urban bias in health service delivery is also evident from selected health indicators. For example, Table 9.10 shows that for 1985 Kelantan had the highest toddler mortality rate at 3.0 per 1000 population, followed by Trengganu at 2.7 per 1000 population. In the same year the doctor-patient ratio is also lowest in Kelantan and Trengganu, at 1.6 and 1.7 doctors per 10,000 population respectively. These two states, Trengganu and Kelantan also happen to be the states with high incidences of poverty, 36 percent and 31.6 percent respectively. On the contrary, in the same year in the city of Kuala Lumpur has a ratio of 11.4 doctors per 10,000 population.

On the whole, it is safe to conclude that health services are by far more advanced in the urban areas such as Kuala Lumpur and Penang, than in states like Kelantan and Trengganu, where there is high incidence of poverty and the population are mainly farmers in the traditional sector.



**Table 9.10**

Peninsular Malaysia: Selected Indicators of Health, 1980 and 1985.

State	Doctor Per 10,000 Population 1980	1985	Toddler Mortality Rate Per 1,000 Population 1980	1985	Incidence of Poverty (%) 1987
Johor	2.1	2.7	1.7	1.0	11.1
Kedah	1.4	1.9	2.6	1.9	31.3
Kelantan	0.9	1.6	3.0	3.0	31.6
Melaka	2.5	3.3	1.4	1.1	11.7
N. Sembilan	3.2	3.3	1.6	1.3	21.5
Pahang	1.9	2.2	2.6	1.9	12.3
Perak	2.2	3.7	2.1	1.7	19.9
Perlis	1.9	2.7	2.2	1.8	29.9
Pulau Pinang	3.4	4.6	1.4	1.0	12.9
Selangor	2.2	2.9	1.2	1.0	8.9
Trangganu	1.2	1.7	3.2	2.7	36.1
Kuala Lumpur	10.2	11.4	1.7	0.8	5.2

Sources: Fifth Malaysia Plan, 1986-90, Table 20-2, p. 510;  
Review of the Fifth Malaysia Plan, 1989, Table 3-4, p. 45; [adapted].

## PUBLIC EXPENDITURE AND INCOME REDISTRIBUTION

### - SOME COMMENTS

Generally, the provision of social services like health and education are seen as meeting the basic needs of the community. Although the poor are able to have better access to these services, nevertheless it is the upper strata that enjoy more benefits from these services. The standard of health care is more superior in the urban centres as compared to rural areas; while the poor households are heavily represented in the primary and secondary schools but the rich are over-represented in post-secondary education.

As Meerman (1979) pointed out, Malaysia's publicly supported redistributive programmes have an investment aspect; household welfare transfers funded out of federal budget are minute and consist almost entirely of federal government pensions (Meerman, 1979, p 325). Furthermore, as presented in Table 9.11, allocations for the development of social welfare services are small in proportion to the total expenditure allocated for social development.

Malaysia does not have substantial systems of large welfare transfers with little investment impact and possibly negative effects on production incentives. For instance, there is no programme of food subsidies; unlike in several where food subsidy elements exceed several percentages of the Gross National Product. Under such schemes the government distributes food coupons or food stamps to selected beneficiaries, which they can exchange for designated food stuffs.

Table 9.11

Public Development Expenditure  
for Social Welfare Services, 1971-90

Development Plan Period	Actual Expenditure \$ million	Expenditure as percentage of Total Allocation for Social Development
1970-75	12.75	5.5
1976-80	28.47	5.0
1981-85	9.29	3.7
1986-90	34.0	10.6

Sources: Fourth Malaysia Plan 1981-85, Table 23-2,  
p.382;  
Fifth Malaysia Plan 1986-90, Table 22-1,  
p 541; [adapted].

In the United States, for example, the food subsidies scheme plays an important role in the overall anti-poverty programme. Based on a criteria of low income in relation to family size, the government provides free food for the economically weakest ten percent or so of the population. In 1985 nearly US\$11 billion worth of stamps were distributed to households with a total of 19 million members, a sum of almost US\$560 per person (Paukert, 1988a, p 147).

Sri Lanka too has a food subsidy programme for lower income families. Sri Lanka's food subsidy policy was originally instituted in 1942, but the scheme was costly as it meant providing basic rations of subsidized rice to all



inhabitants while at the same time offered rice farmers inducement prices in order to reduce the country's dependence on rice imports. A radical reform of the food subsidy programme was effected in 1979. Food stamps are distributed to poor household members according to age and nutritional requirements of household members. Families can spend their food stamps on rice, flour, bread, sugar, locally produced pulses, condensed milk, dried fish and kerosene. In 1981 in Colombo between 70 to 90 percent of food stamps were spent on rice, followed by sugar and milk foods (Mateus, 1983, pp 34-36). Selowsky (1980) cites that under the old food subsidy system, food subsidies amounted to 14 percent of total government expenditure or 3 percent of the Gross National Product. After the introduction of food stamps the cost of subsidies decreased to 7 percent of total government expenditure or 3 percent of the Gross National Product. Furthermore, the food stamps system plays a very important role in the income structure of the poorer segment of society - increasing the incomes of poor households by about 55 percent. These are some of the examples which could serve as models for Malaysian welfare planners.

In contrast to countries like the United States and Sri Lanka, Malaysia does not emphasise welfare transfer programmes. The country's social security organizations, such as the Employees' Provident Fund, registered rapid actuarial growth, but their cash surpluses has been used as the major source of funds for the state's development budget. In 1988 the Fund was the largest holder of government securities, holding 58 percent of all outstanding government securities (TER 1988/89, p 93).

In general, Malaysia appears to give priority to the development of public programmes with an investment aspect. Thus pure welfare transfer programmes are not given priority in the allocation of public

expenditure. Welfare transfer programmes, therefore, are not used as a device for the redistribution of income from the rich to the poor.

## SUMMARY AND CONCLUDING REMARKS

While it is true that the Malaysian poverty eradication programmes have been successful in raising the absolute levels of income of poor households and subsequently in reducing the incidence of poverty, income disparities between rural and urban sectors and within ethnic groups still persist. One reason for the persistent inequalities is that benefits derived from policies aimed at alleviating poverty among specific target groups have different impact on different social strata.

Despite the state's claim that the quality of life of the poor has improved, this study believes that several weaknesses exist in the policies designed to eradicate poverty and redistribute income. The nature and effectiveness of policies aimed at redistributing income depends crucially on the existing political, social and economic structures. If the state is committed to a redistribution of income in favour of the poor, then the pre-requisites to achieving this target includes fundamental policy interventions, for example substantial land reforms such as in Korea and Taiwan, would abolish existing structural inequalities particularly in rural areas and therefore spread land ownership. Under the circumstances existing in Malaysia, however, policy interventions are marginal and incremental in nature. Land reform and the subdivision of commercial rubber and oil-palm plantations into family holdings are not feasible. As opposed to direct radical measures, indirect mild reforms, as practised in Malaysia, generate little significance in reducing inequality. During the Fifth Malaysia Plan period (1986-1990) the costly Felda land



development schemes benefit only a small proportion of 8.4 percent<sup>16</sup> of the poor in the rural areas, and thus the programme has a marginal impact on income redistribution. Meanwhile, in 1987, mainly due to the uneconomic size of padi farms, the incidence of poverty among padi farmers at 50.2 percent (R5MP, Table, 3-6, p 52), was more than double the overall incidence of poverty of 22.4 percent for the rural areas (R5MP, Table 3-6, pp 52-53).

Within the current framework of growth in Malaysia two trends are clear. Firstly, the economy is based increasingly on a firm capitalist ground, operating on the principle of private property ownership, wage labour and commodity production<sup>17</sup>. Secondly, the adopted patterns of development have failed to alter significantly the unequal patterns of income distribution. It appears that the Malaysian experience does not support the hypothesis of growing inequality in rapidly developing countries, but neither does the Malaysian case disprove it. The Malaysian case also indicates that an all-out drive for growth need not necessarily result in greater income dispersion. Indeed, Malaysia's development policies have, in some instances, neglected the question of income inequality. A case in point is the industrialization programme but with the absence of a minimum wage legislation, particularly for lower grade production workers. Moreover, public expenditure programmes in Malaysia tend to neglect pure welfare transfer programmes, like food subsidies for the poor, which may have a positive impact on the redistribution of income in favour of the poor.

---

16. For the period 1986-1990 some 33,800 poor families were settled in Felda schemes, compared with a total of 402,300 poor households in the rural areas in 1987 (R5MP, pp 32; 52).

17. In Malaysia, poverty alleviation has been carried out within the existing capitalist framework, and therefore poverty alleviation policies must not threaten the interests of the dominant capitalist class. For instance, raising the income levels of poorer households will lead to an expansion of the internal market, which is a necessary pre-requisite for the expansion of capitalist manufacturing enterprises producing consumption goods (Toh, 1982, p 41).



If poverty is to be eradicated by state intervention within the framework of existing democratic politics and a largely capitalist economy, this study contends that this could be accomplished by a government led by a coherent leadership giving higher priority to the interests of the lower classes. The state must be able to translate this commitment into a framework capable of penetrating the lower classes with benefits without being intercepted by the upper stratum of society. Thus, in essence, a reformed social order, which in reality is not totally impossible, is essential, wherein the state is controlled by strong leaders with a clear-cut ideological commitment that incorporates, or is reasonably accountable to, the interests of the lower classes.

Perhaps Malaysia could learn a few lessons from Zimbabwe. The Zimbabwean experience shows how the power of the state in a capitalistic society could be used to create an egalitarian and democratic pattern of development. A study by Bratton (1981) shows how Robert Mugabe's Zimbabwean African National Union (Patriotic Front) or ZANU(PF) has sought to restructure the economy. The state's explicit aim of development strategy is to build a socialist, democratic and egalitarian society. However, it ought to be recognised, of course, that comparisons often lead to less than clear-cut conclusions, and detailed studies are bound to produce some reservations.

While foreign and domestic private capital formation in Zimbabwe is not discouraged at the same time the state introduces progressive social legislation "which has put concrete benefits in the hands of the majority of the population" (Bratton, 1981, p 462). Minimum wages have been set for the first time in sectors where the majority of the blacks are employed, namely in agriculture, industry, and domestic service. Free health care for those earning low income was introduced at the end of 1980. Bratton (1981) comments that

the real test of reformist capacities will emerge only when land reform is attempted, but the fact that Zimbabwe has made a promising beginning should be recognized by other Third World countries that are attempting to reduce inequality.

Conceivably, in Malaysia it is time for those who have access to power to reassess the constraints of the capitalist mode of development. Ultimately, if development with distribution is the preferred goal of the anti-poverty strategy in Malaysia, there is a need for a consolidated and committed state apparatus. Until such a commitment is demonstrated by those in power, this chapter reluctantly concludes that poverty eradication measures in Malaysia are intended to legitimise the capitalist nature of the state, while at the same time perpetuating socio-economic conditions that result in inequitable patterns in the redistribution of income and resources.

## Chapter Ten

### **WOMEN AND DEVELOPMENT: SOME IMPLICATIONS FOR SOCIAL SECURITY**

#### **INTRODUCTION**

This chapter explores the impact of economic development on the patterns of female employment in Malaysia. The analysis shall focus on two important areas where the majority of women are employed, that is, in the rural agricultural sector and the urban industrial wage market.

This chapter argues that it is the political economy of the country that has a profound effect on the levels of women's participation in the country's development process. The discussion will demonstrate first how colonialism and capitalism have contributed towards the marginalization of women in the rural sector. The argument will show that it is the state's industrialisation policies, particularly the inducements for multinationals to set up factories in Malaysia, that dramatically promotes the integration of women in the urban wage labour market, while at the same time marginalizes the position of those who are in that market.

#### **THE MARGINALIZATION OF RURAL WOMEN**

The work of rural women is an integral part of the rural economy. Thus, in a predominantly agricultural economy, women's contribution forms an important part of the national economy. Women's work relate to food production,



household manufacture, household maintenance and child-raising; in short, the reproduction and maintenance of labour. Female labour, however, is associated with non-monetary production of goods and services for family use, that is, the subsistence sector of the economy.

Rural women start their day at around four o'clock in the morning, when they get up to prepare the morning and mid-day meals for their families. By five or six o'clock they set out to work in the fields, either tapping rubber, or working in the rice fields or tending to other crops. At mid-day they take a short rest. Then they continue to work until around four o'clock in the afternoon. When they return home more work have to be done, like cooking the family's evening meal, sewing and mending clothes, washing clothes and child-care. In all they perform about 16 to 17 hours of productive work daily.

Generally, in many Third World countries the marginalization of female labour could be traced to colonial rule. Boserup's (1970) classic study on the role of women in economic development illustrates the negative effects that colonialism and the penetration of capitalism into subsistence economies have often had on women. She points out that European colonial rule contributed to the loss of status of women and that "Europeans showed little sympathy for the female farming systems which they found in many of their colonies" (Boserup, 1970, p 54). An example is the case of Uganda, where women began the cultivation of cotton. In 1923 the European administration changed the pattern of cotton cultivation. However, they neglected to instruct female cultivators when they introduced new agricultural methods, teaching only the men in an agricultural setting of traditional female farming. In Senegal Chinese instructors from Taiwan failed in their efforts to introduce better techniques in rice production because they taught only the men, who took no notice since their wives were the cultivators, and the wives being untaught, continued in

the old way, subdividing the carefully improved fields into small traditional plots (Boserup, 1970, pp 54-55). Dixon (1978, p 19) cites the example in tribal areas of India, where new crops, new farming techniques, and the biases of extension workers were pushing women out of their traditional agricultural roles in the transition from shifting cultivation to orchards and terraces.

The loss of women's rights to land is often the result of land reforms introduced by colonial administrators. For instance, Swift (1963, pp 276-67) points out that in the state of Negri Sembilan in Malaysia, where the land-holding culture was directly attributable to matrilineal as opposed to patrilineal family descent systems, land was traditionally held by women cultivators. Both padi land and land on which women had their homesteads was traditionally passed on from mother to daughter, or from sister to sister. The British administration took the first step in transferring the rights of land from women to men, when it decided that only land which was under actual cultivation by the women would continue to pass in the female line, whereas the areas serving as fallow land in shifting agriculture had to be registered to ensure the continuance of female inheritance<sup>1</sup>. Hence the women lost their rights to forest land, and later this proved to be a significant loss when the men began to plant rubber trees in the forest clearings.

Studies on the socio-economic impact of specific development programmes tend to show proof that it is usual for agricultural technical advisers to promote the productivity of male labour as opposed to female labour, due to the fact that women are rarely members of project planning groups. In Gujerat, India, irrigation and multiple cropping have adverse effects upon female labour force

---

1. In 1891 the British introduced a new form of land administration, known as the Torren System, in which land titles are based on cadastral land surveys, and recorded in the *Mukim* Register. The Register contains columns which described the nature of cultivation of each land holdings, and the records are registered with the district land office (Lim, 1977, p 76).



participation. In northeastern Thailand there has been almost no effect upon women's work roles of a rainfed agricultural development project. In Peninsula Malaysia it was reported that women's wage rates were negatively affected by an irrigation-resettlement project (Stoeckel and Sirisena, 1988, p 31).

In Sri Lanka, national development programmes such as the Guaranteed Price Scheme for rice-producing farmers, land settlement and rural electrification make a greater contribution to increasing male income than they do to increasing female income. The income benefits of development programmes received by women is further constrained by existing inequality of wage rates between the sexes within the same occupation in the agricultural sector. For example, women workers earn from 19 percent to 39 percent less than males in rice-farming occupations; and 23 percent to 38 percent less in tea cultivation (Stoeckel and Sirisena, 1988, p 40).

In Malaysia women are estimated to comprise about one-third of the total labour force in the country. Some 56 percent of the female labour force are concentrated in the rubber production and padi cultivation, and a third of these women who work in the agricultural sector are unpaid family workers (Hua, 1983, p 188). Precisely because these workers are unwaged family labour, their productivity is omitted from the statistics of production and income, although they may work some 14 to 16 hours daily, ranging from work in the fields to producing food for the family's consumption, child care and home maintenance.

Malaysian women take part equally with men in basic agricultural production. Kusnic and DaVanzo (1980, p. 58) observe that in Malaysia rural women in general, and rural female heads of households in particular, work longer



hours, and forgo much leisure than their urban counterparts. Despite this fact, development projects designed to improve the socio-economic status of rural people seldom incorporate women as principal participants. For example, as discussed in chapter 9, applicants for the Felda land development schemes are admitted on the grounds of need for land. However, it is the husband's situation which is considered of interest. Men are conceived of being heads of households, and the normal household is assumed to be a nuclear family. Although admission is subject to the condition that husband and wife co-operate as team, it also implies a certain marginalization and subordination of women.

The labour-power of women employed in the capitalist agricultural sector is equally exploited and underestimated. Heyzer's (1986) investigation on women estate workers in Peninsula Malaysia illustrates this point. In the 1920s colonial administration encouraged an ethnic family formation on the rubber estates. Male labourers, who were largely Tamils from South India, were granted company housing and encouraged to bring their wives to live with them. Work contracts were generally signed with the male head of family, who was frequently required to provide the labour of his wife and children.

Women provide more than 50 percent of the labour force on rubber estates, and worked as tappers and weeders, sometimes with the help of their children. Their wages, which were calculated as part of a "family wage", fluctuate with the weather. Rubber-tapping is impossible on rainy days. Furthermore, women's employment on rubber plantations is being adversely affected by the declining international demand for rubber, and the resulting trend towards the conversion of rubber estates into oil-palm holdings, where labour requirements are much lower.

Women plantation workers begin a typical day at around four in the morning., when she prepares the morning meal and lunch for her family. Plantations usually provide basic day-care for pre-school children of women tappers. At half-past five in the morning she sets out to tap the rubber trees. She finishes her rounds at nine o'clock. After a short break she begins to collect the latex, and finishes work by about two o'clock in the afternoon. In order to supplement their incomes, women plantation workers often take a second job in the afternoon, working as domestic helpers in homes outside the plantation. It could be nine o'clock in the evening by the time they return home to prepare the evening meal.

Although during the colonial period women rubber plantation workers were paid less than men, conditions have changed. Women now have equal pay for equal work agreements. Equal wages for a fixed level of productivity for men and women tappers were introduced in 1953 (Ariffin, 1989, p 87). Under the equal pay condition all tappers have to tap 700 trees a day. It is the men, however, who dominate the top positions in the plantation hierarchy. In addition to their work as rubber tappers, estate women are also responsible for feeding the labour force. Food items bought from the market are frequently supplemented by vegetables and fruits grown on small plots, and it is the women who tend to these plots.

Under equal pay conditions women are not allowed time off for reproductive activities such as visiting or feeding their children in the estate creche. Heyzer (1986) remarked that one of the most insidious features in the plantation system is its cyclical nature. Schooling for estate children is minimal; families are trapped in the plantation network from generation to generation and have little chances of entering other more remunerative wage-earning sectors. The plantation is a total institution which reproduces labour for its sustenance. Kids



are ensured of jobs and go to work as soon as they come of age. Families are therefore tied to the plantations and this allows the persistence of exploitative and discriminatory practices.

## WOMEN AND THE GLOBAL ECONOMY

The discussion in chapter Two analysed how Third World countries, like Malaysia, were incorporated into the capitalist economic system. Dependency theorists stress on the role of international factors, specifically the capitalist system which directly or indirectly controls the world's markets. Changes in the patterns of female employment seem to vary according to the particular conditions of development process in a given country and the role that country plays in the international division of labour.

For instance, Stolz-Chinchilla's (1977) research in Guatemala shows that the mode of production and the function of the economy in an international economic system affects Third World women. Unlike industrial growth in Argentina and Mexico, where large numbers of women workers were drawn into industrial factories, industrial growth in Guatemala becomes linked to increased poverty and feudal patriarchy and that most female workers remain locked into subsistence agriculture and domestic work.

In several other Third World countries the patterns of foreign investment and dependence brought about by the international division of labour have had a dramatic effect on the integration as well as the marginalization of women in the labour market. On the one hand, it is true that the internationalization of industrial production on a world scale has resulted in an increase in women's employment relative to men, because women constitute the preferred source of



labour for multinational factories<sup>2</sup>. On the other hand, Saffiotti (1975) argues that it is the world capitalist system that is largely responsible for the "backwardness" of the household, because the household functions to maintain women as a reserve labour force, available to join the labour market when necessary. Thus women are seen as victims of capitalism, confined to the less valued sector of the economy, and held within the households as passive labour reserves, to be released or withdrawn from the market in response to the cyclical nature of capitalist economy.

Multinational companies are attracted to Third World countries basically because labour there is excessively cheap, and labour costs differentials, inclusive of overhead costs, between traditional and newly industrialised countries are between 80 to 90 percent (Frobel, *et al*, 1978, p 846). Furthermore, labour in Third World countries are readily available, equally productive, more easily subjected to discipline, hard work and longer working hours. Southall (1988, pp 10; 12) asserts that wages in Third World countries are so much cheaper for two reasons. Through the struggle of labour organization, labour in industrialised countries has been able to extract a relatively high real rate of return. Secondly, the expansion of global capitalist production processes has resulted in the disintegration or subordination of non-capitalist forms of production. The capitalist transformation of agriculture

---

2. Ghertman and Allen (1984, p 2) define multinational companies as "any company originating in one country and having continuous activities under its control in at least two other countries, that is, foreign countries, which provide more than 10 percent of total group turnover". The company in the country of origin is known as the "parent company" and the extensions into the host countries are known as "foreign subsidiaries"; the latter may be under the former's financial control (majority shareownership), or managerial control (management control), or technological control (transfer of technology). Examples of multinationals (also known as transnationals) are the European companies such as Triumph International Group, Unilever, Robert Bosch, Siemens, Phillips; American companies such as Union Carbide, General Electric, RCA, Motorola, Texas Instruments; and Japanese companies such as Seiko Electronics, Matsushita and Hitachi.

deprives an increasing proportion of rural inhabitants of access to land. Subsequently, the capitalist mode of production subsidises capital by enabling it to employ the displaced rural population and pay wages below the cost of the social reproduction of labour. As a result of the global expansion of capital, Third World states are required to develop and maintain repressive political institutions by exerting authoritative controls over labour, thus increasing their attractiveness as sites for multinational investment.

### THE ROLE OF WOMEN IN INDUSTRIAL DEVELOPMENT

As explained in chapter Nine, the expansion of industries in Malaysia began with the legislation of the Pioneer Industrial Ordinance in 1958 and the subsequent establishment of import-substitution industries. Industrial expansion was further encouraged by the state with the declaration of the Investment Incentives Act of 1968 and the subsequent establishment of the export-orientation phase. The expansion of this later phase of industrialisation has been strongly supported by the state, with its central concern of restructuring society in the context of an expanding economy.

Southall (1988, pp 12-13) distinguishes four different types of regimes within the new international division of labour. These regimes are: (1) colonial and settler-colonial regimes, for example, Hong Kong and South Africa; (2) dependent development regimes, where industrial strategy is geared to the global market, for example, Taiwan, Singapore and Sri Lanka; (3) state capitalist regimes, where state intervention and heavy industrial development have enabled world competitiveness in certain spheres, for example, India; and (4) revolutionary regimes, which are seeking to increase participation in the world market, for example, China.



Within Southall's typology Malaysia is a clear model of both the dependent development and state capitalist regime. The state has promoted industrial development in a number of ways. Public expenditure on industrial development increased rapidly from 1.2 percent of the development expenditure in the First Malaya Plan 1956-60 (1MP, Table 2-6, p 29) to 3.6 percent in the Fourth Malaysia Plan 1981-85 and 7.8 percent in the Fifth Malaysia Plan 1986-90 (5MP, pp 227; 242; 360).

A fundamental investment-encouragement scheme adopted by the state was the creation of industrial estates. McGee *et al* (1989, p 267) observes that between 1962 to 1984 some 86 industrial estates were established, mainly concentrated in the urban zones of Kuala Lumpur - Kelang, Penang, Johor Bahru, Seremban and Melaka. An important variant in these industrial estates were the free-trade zones or export-processing zones, which in 1984 consisted of nine zones located in Selangor, Penang and Melaka.

In its promotion and coordination of industrial development, the state puts stress on "labour-intensive resource-based, including agro-based export-oriented and high technology industries" (3MP, p 317). However, Malaysia lacks the necessary capital and technology which is vital for its industrial development. Hence the involvement of multinational corporations has been a central feature in the process of Malaysian industrial expansion. By comparative standards this has been extremely successful.

In a case study on industrial estates in Penang, McGee *et al* (1989, pp 268-69) report that between 1971 to 1984 the number of factories increased from 36 to 243, while employment rose from 4500 to 56,000. The electronics and electrical industries accounted for 47 percent of the new jobs created, and a



further 24 percent was created in the textile and garment factories. Industries which were labour-intensive were also female-intensive. Almost 62 percent of the workers were females, of which over four-fifths were employed in the electronics and textile industries. Malays made up the majority of the workforce; in 1982 some 45 percent of them were employed on the industrial estates, compared with 33 percent of the total manufacturing employment in Penang state in 1980.

### IMPACT OF INDUSTRIALISATION ON WOMEN'S LABOUR POWER

The effect of international capital accumulation involves a new division of labour in which young women become migrant wage earners. The demands of world capitalism have dislocated the peasant economy. The commercialisation of land, heavy investment in commodity cash crops at the expense of subsistence agriculture and the undervaluation of women's work in crop cultivation are some of the reasons why young women rely on multinational corporations as providers of better employment opportunities. The majority of rural Malaysian women who migrate to the urban centres in order to seek employment in the industrial sectors. Although absorbed in large masses by the industries, in general they are concentrated in low-wage, labour-intensive industries such as food, textile and garments, and electronics and electrical industries.

It is the women's labour power that has played a paramount role in establishing the electronics industry as the driving force behind Malaysia's transformation from a commodity producer to a manufacturing power. The electronics industry plays a dominant role in the country's economy. Malaysia is now the

world's biggest exporter of semi-conductor devices and the world's third largest producer after Japan and the United States ((FEER, 7.9.1990, p 98). In 1988 exports from the electronics industries amounted to \$14.7 billion, equivalent to 56 percent of all manufacturing exports, compared to 48 percent in 1980 (ibid.).

Literature on female employment in industries tend to blame export-oriented multinationals as the leading exploiters of female labour. For instance, Hua (1983, p 188) mentions that in 1981 women made up 90 percent of the assembly workforce in the electronics factories in Malaysia, with low wages ranging between \$100 to \$200 a month. In 1986 women were still earning low wages compared with men; production workers in the textile and electronics industries were earning monthly wages of \$277 and \$317 respectively, while monthly wages in the male-dominated machinery and motor vehicle industries were \$570 and \$425 respectively (Ministry of Labour, 1986, Table 9-3, p 153). Due to frequently layoffs resulting from vulnerability to the world market, work in multinationals offer no job security. With the absence of a pension scheme, the greatest fear is retrenchment. In the 1984-85 recession the electronics industry retrenched some 30,000 workers (FEER, 21.12.1989, p 34).

Economic development policies adopted by the state are not specifically accompanied by the necessary social and welfare facilities. Female migrants are known to live under oppressive conditions. Generally where there is a shortage of modern housing or where rents are high, female migrants live in squatter settlements, where amenities such as piped water, flush toilets and garbage collection are limited. Several of these settlements are located on the fringes of urban centres such as Kuala Lumpur, Petaling Jaya and Penang.



In a study on the overseas expansion of Japanese capitalist economy, in particular the Toray textile industry, Haruhi (1984) observed some 8000 workers or 16 percent of the 50,000 employees in Malaysia's textile industry. The young women workers, recruited from the rural areas, were accommodated in houses rented by Toray in housing estates close to the Export Processing Zones. Dormitories were set up in these houses, accommodating sometimes up to 30 workers in each house. The workers' private lives were controlled by the patriarchal system, headed by a Housemaster and Housemistress who lived nearby. Workers must seek permission before they go out and record the times when they leave and come back.

In Malaysia there are limited opportunities of initiating political consciousness amidst women workers in the export-oriented industries. The fact that these women were brought up in a patriarchal society, and because they spend a greater proportion of their daily life either in the factories or restoring their energy after work, they have little opportunity to raise their consciousness as women and as workers.

Why then do women choose to work in multinational factories? Although it may be inferior by white collar working standards, work in multinationals, with shorter working hours and better working conditions, generate more income compared with traditional housework or unpaid family labour in the agricultural sector. Besides there is access to the city, independence and freedom of movement, compared with the strict patriarchal system in the villages. Furthermore, factory work is more readily regulated by the state than unpaid family agricultural labour or domestic work, where working hours are anything up to 14 to 16 hours daily.



## MIGRATION AND WOMEN'S REPRODUCTIVE RESPONSIBILITY

The impact of migration on women's reproductive responsibility results in adjustments in child-rearing patterns. Migrant women with young children, for example, find child-care facilities in urban areas beyond their financial means. State-run or state-subsidised creches are non-existent. As a result, these women migrants have to depend on their close kin ties for certain welfare facilities.

In a study in Rembau, a rural area in the state of Negri Sembilan, Stiven (1987) shows that despite large-scale migration to towns, women maintain close kinship ties with the rural areas. Migrants generally contribute towards the extended family's economy. Women therefore are not released from a system in which there are obligations which hold implications of major unpaid work. Single and married children make extensive monetary remittances to their immediate families. Malay women are manipulating elements of traditional codes to help them get along in the marginal world in which they live; working women who send their children to the rural areas to live with their grandparents, periodically forward remittances for child support. In return grandparents contribute significantly towards the care of migrants' children, thus encouraging the maximisation of the welfare role of the kin, in lieu of state provision of welfare facilities.

## EXPLOITATION OF FEMALE GUEST WORKERS

The exploitation of Malaysian female labour power transgresses national boundaries. Heyzer (1982) asserts that Malaysian migrants working in labour-intensive industries in Singapore is an example of this type of exploitation. The

creation of a mobile workforce that is fully employed during the boom period and which could be removed from production during the slump contributes to the development of a peripheral or marginal workforce within the industrial sector, separated from the more affluent sectors of the Singaporean society. Precisely because Singapore is a small nation-state without the adequate female labour force, workers were recruited from the rural areas in neighbouring Peninsula Malaysia. Thus, young women workers with marginal income needs, and who can be easily reabsorbed into the family structure, are regarded as ideal for a "floating workforce" (Heyzer, 1982, p 18).

Although migrant workers formed 51 percent of the total manufacturing workforce in Singapore (Heyzer, 1982, p 187), they have little control over their employment and constantly suffer considerable insecurity. In absolute terms, compared with their counterparts in Malaysia, migrant workers in Singapore receive higher wages. The average hourly rate for Singapore factory workers in 1985 was US\$1.58, compared with US\$0.84 for factory workers in Malaysia (FEER, 22.12.1989, p 33). However, because the cost of living is higher in Singapore than in Malaysia, it proved difficult for migrant workers to save money for periods of unemployment.

In order to prevent the permanent settlement of migrant workers and therefore pose a threat to political and economic stability, Heyzer (1982) points out that the Singapore state enforces strict regulations on migrant workers. One such regulation concerns the marriage between work-permit holders and Singaporeans. In exchange for a marriage license they are required to sign a bond that both parties will be sterilize after the birth of the second child. Besides, employers are required to furnish reports on semi-annual pregnancy tests administered to female migrant workers, and those found pregnant are to be repatriated at the expense of their employers.



Thus far the discussion has shown that the absorption of women into the industrial workforce reinforces their subordinate position as a gender. Women are favoured by capital in industries because wage levels for women are almost always lower than for men. Furthermore, women are more easily manipulated and generally less organised and therefore more susceptible to domination by male employers. The fact that women are easily hired and fired makes their labour power favourable to the process of accumulation by global factories which are acutely vulnerable to demand fluctuations and protectionism.

### PETTY COMMODITY PRODUCERS

Capitalism and the creation of an urban industrial workforce is indirectly responsible for the proliferation of what Moser (1978) terms as petty commodity production. His approach "focuses on the structural linkages and relationships between different production and distribution systems (which include technical as well as social relations of production)..... [and] identifies the constraints on the expansion of small-scale enterprises, the levels of capital accumulation possible and the dynamics of production at this level, and the transitional processes, whether to capitalist production, or proletarianization" (Moser, 1978, p 1061). In other words, due to its subordination to capital, the extent of either cohabitation or articulation of petty commodity production depends not on its own interests, but on its contribution to the interests of capital. As was pointed out in the preceding sections, industrial capital accumulation also creates a substantial low-income or impoverished category in the workforce.



Harrison (1978, p 33) asserts that "a commodity is a use value which has exchange value. It is produced for exchange - made to be swapped or sold on the market" Under this definition a commodity need not be an object; if it is something people need, it has a use value. Lebrun and Gerry (1975) assert that by creating an urban industrial workforce, capitalism has formed a market for commodities, which has resulted in the production of commodity for exchange. In Malaysia one form of petty commodity production that is linked with the urban industrial workforce is the spread of hawker/foodstall sector. One is able to observe this phenomenon occurring on the parameter of industrial zones and in the suburban residential areas.

Generally in Malaysia it is the women who dominate the petty food production sector. Poor women find that trading allows them the flexibility necessary to integrate daily maintenance of a household and income-generating pursuits; and thus allows them to reduce, in part at least, the conflict stemming from their dual responsibilities as income earners and mothers. These women sell food in order to supplement the incomes of their spouses. They cater mainly for the low-income workers. The types of food they prepare are local fast-foods, such as noodles, rice, meat kebabs, cakes and drinks. A decent meal may cost within the region of \$1.50 to \$2.00 (or equivalent to 40 to 50 pence). Thus, in this case, food is the commodity produced for exchange between the petty producers and the wage labour force of the capitalist sector.

Owing to their low capital outlay, the food hawkers use rudimentary modes of production. Often the stalls are simple sheds built of wood with corrugated iron sheets as roofs; and the use of minimal utensils helps to keep the costs of production down. The major component of the costs lie in the purchase of raw

ingredients and fuel, which is often supplied by middlemen traders, and thus prices would have been inflated in order to account for the suppliers' profits.

Owing to sales which depend largely on a labour force that receive low wages, these food vendors are unable to accrue high profits. This is an indirect manifestation of the control exerted by the capitalist mode of production on petty producers. Other constraints include the capitalist state's control over licenses, contracts and credit facilities. As they do not have a fixed income, it is almost impossible for petty producers to obtain credit facilities in order to expand production. In a study on petty producers in Dakar, Gerry (1978) concludes that petty producers are forced into a dependent and peripheral status, in this case, within the complex Senegal social formation - a situation which can occur in other countries too.

The process of unequal exchange and the transfer of value occurs from the petty to the capitalist production, and the result is the articulation of the petty production sector. Bienefeld (1975) argues that there is net transfer of value from petty producers to the capitalist sector by way of "a transfer of surplus to the modern sector, within which their surplus may be shared by the wage earners involved in the production of such commodities" (Bienefeld, 1975, p 72). His study of street traders in Tanzania found that virtually none of them earned incomes that might make accumulation of capital a real possibility; hence "their ability to accumulate capital to raise the forces of production is both limited by and dependent upon the activities of the "modern" sector, as an extension of the international capitalist system" (Bienefeld, 1975, p 71).

Mazumdar (1976) states that the petty production sector contains a higher proportion of women than the wage employment sector. The denial of higher-income employment for women reflects their oppressed status, while their



involvement as petty producers in food vendoring or vegetable and fruit selling illustrates the marginal nature of employment in this sector. Thus by minimising the costs of commodities purchased by wage-labour, petty producers certainly play a vital role in the procreation of capitalism. Yet it is the same process which leads to the impoverishment of petty producers.

In short, women petty producers are often exploited by middlemen, harassed by public officials (who see the use of ramshackle stalls and makeshift carts as an affront to modernisation efforts and who do not realise the significance of these activities for family survival) and denied access to both credit and technical expertise in capital management. The fact that these women are burdened by both household and income-generating activities contributes to their powerlessness as a group. Often they do not participate actively in community agencies, which would help them become aware of their common needs as working mothers, or in labour unions, which would foster their sense of solidarity. Women petty producers equally contribute to the economy's resilience. Hence they ought to be given economic assistance, such as appropriate infrastructure and permanent trading sites, and access to working and investment capital, as well as training and marketing skills, so as to allow them to circumvent the middleman system.

### SUMMARY AND CONCLUDING REMARKS

For the most part, as understood from the foregoing discussion, the capitalist labour market penalises the female labour-force, and has a number of direct effects, reducing many to a peripheral status. State policies implicitly recognise that women are primarily responsible for reproduction - the unwaged activities contributing to the maintenance and welfare of household members. Any



analysis needs to bring out that important relationship, and needs to distinguish the sheer quantity of unpaid from paid working hours<sup>3</sup>.

It is true that a developing country like Malaysia has few resources to expend on welfare services. In the choice between production or reproduction the state has opted for the former as a means of increasing levels of economic growth. But that has been at the expense of discriminating between types of labour in remuneration more severely and creating a low paid, insecure workforce, that is, women in the manufacturing industries. The "trickle down" assumption of growth, therefore, have to be questioned. The discussion in this chapter has itemised the component contributing to low income and poor social status of different institutionalised developments directly attributable to the priorities of Malaysian economic development. Commitment by the state to social expenditure is generally small. In the Fifth Malaysia Plan 1986-90 the proportion of Federal development expenditure for social welfare is only 0.08 percent, housing 2.5 percent, and health 1.7 percent; compared with 59 percent allocated for the economic sector (5MP, pp 242; 518; 530; 541). In the light of this expenditure structure it is implicit that the state endorses and indeed rely upon the activities of private individuals, who are primarily women, to reproduce the workforce. As mothers and housewives, it is women who usually provide essential welfare services for which public finance cannot be found. Due to its unwaged status, women's reproductive responsibility actually subsidises the state and enables it to make substantial savings in expenditure in social services.

---

3. Studies in the United States and Canada show the value of housework as share of personal income range between 41 and 53 percent, while in Malaysia the ratio is 38.5 percent (Kusnic and DaVanzo, 1980, p 108). Malaysian women with children spend about 12 to 12.7 hours daily on non-market activities - child-care and food preparation are the two most important activities of the mother (DaVanzo and Lee, 1983, p 72).

State policies, designed primarily by male bureaucrats, need to recognise the reproductive responsibility of women in contributing to the well-being of wage labour force. Hence radical structural changes are needed in the state policy-making process. For example, it is absolutely essential that the dimension of gender is introduced in state development planning documents. The dimension of gender in the measurement of poverty is vital; even if income is measured in terms of household income, it is pertinent to point out the gender of heads of households rather than to assume that males are heads of households or principal breadwinners.

Feminity has never been equated with financial self-sufficiency. It is vital that we challenge the notion of women's financial dependence on men. On a practical level, women's greater share of unpaid domestic work has inhibited their ability to generate an adequate income for old age. Even if they have been absorbed into the wage labour force, the fact that they are in low-paid, insecure jobs, makes it impossible for them to save for periods of unemployment or old age. There is hardly any safety-net for them to fall back to in cases of contingencies.

As follows, development policies must recognise and accept the survival strategies of poor women so as not to undermine further the tenuous economic position of these women. Policy makers need to formulate policies and implement programmes which consider the needs of women with low-income, so as to balance their dual roles as economically active persons and mothers. Such policies ought to be based on the acceptance of the vital significance of women's contribution in the economic production as well as social reproduction processes; and the acceptance of the legitimacy of poor women's economic activities.



Adequate employment security for low-paid women in the labour-force ought to be given priority by labour unions. Labour unions would be expected to demonstrate their welfarist and social democratic roles in the unequal struggle between labour and capital at the periphery of the global economic system. On the contrary, labour unions, being patriarchal in nature<sup>4</sup>, tend to play a role in fostering the interests of male members, while issues pertaining to women and work are not given priority by the unions (Arriffin, 1989, p 79).

In summary, the argument in this chapter has gradually appreciated both the wider meanings of social security and the need to trace the structural causes, and especially economic, industrial and social discriminatory causes, of insecurity and poverty. Inevitably this must include consideration of both race and gender.

---

4. Arriffin (1989, p 90) observes that in Malaysia, women formed 27.4 percent of the total trade union membership in 1983 but only 4 percent of the leadership structure was composed of women members - an evidence that trade unionism is considerably a male institution.



## **Chapter Eleven**

### **THE SIGNIFICANCE OF SOCIAL SECURITY**

#### **INTRODUCTION**

The review of the development policies in Malaysia, which have been presented in preceding chapters, suggests that economic growth by itself does not reduce poverty. While it is true that the Malaysian government has made explicit attempts to alleviate the problem of absolute poverty, relative inequalities appear to be on the increase and these replace or add to the problems of absolute poverty as defined historically. Perhaps the reason for this is the state's choice of capitalism as its path of economic development, which results in a maldistribution of resources, new forms of deprivation, the existence of a segregated labour market which is weak in bargaining power, and an economy which is dependent upon domestic as well as international economic forces.

How could we achieve a substantial reduction in income inequalities and economic insecurity in order to establish a basis of minimum or acceptable living standards for the poor? In advanced industrial countries elaborate social security systems have been developed with the basic aim of relieving the problem of low income and poverty. There is now a tendency for developing countries to initiate such schemes. Thus to answer the question posed above, it is necessary to understand what is meant by the term "social security".

In this chapter the intention is to review the concept of social security, and then explain some of the reasons for the development of social security. The second part of this chapter will examine some social security programmes found in industrial countries as well as those in selected Third World countries, with a focus on the major social security schemes in Malaysia.

### WHAT IS SOCIAL SECURITY?

Like "poverty" the term "social security" has no universally accepted definition. Comparative studies on social security usually raise issues pertaining to the difficulties relating to definitions and data. This chapter will review a number of examples of how the term has been used by different scholars.

Altmeyer (1966) perceives social security as "a specific governmental programme designed to promote the economic and social well-being of individual workers and their families through providing protection against specific hazards which otherwise cause widespread destitution and misery" (Altmeyer, 1966, p 3). This definition upholds the importance of government taking major responsibility in social security in a capitalistic and industrial nation, like the United States. The definition is closely aligned to a market interpretation of society, that action only needs to be taken when for reasons of "hazard" people are unable to earn an income for themselves.

Brown (1982) defines social security as "that part of policy which is concerned directly with maintaining income, primarily when people are unable to work, and thereby securing them against falling into poverty" (Brown, 1982, p 30). This definition reflects the nature of the British social security system with its primary concern for income maintenance and not being short of money.



In a comparative study on social security in ten industrial countries Kaim-Caudle (1973, pp 6-13) draws attention to the different meanings of the term. In the United States the term is popularly used to refer to old age, survivors', disability and health insurance programmes of the Federal government, while the United States Department of Health, Education and Welfare attaches a much wider meaning to the term which encompasses all public programmes providing protection against loss of income, retirement provisions for government employees, veterans' compensation and pensions and privately-organised pensions and occupational welfare. In the United Kingdom social security benefits cover cash transfers in the context of social insurance, social assistance and veterans' pensions, while in New Zealand the term includes a comprehensive system of cash benefits plus a universal health service.

Thus so as to overcome the complexities involved in what is meant by the term social security, Kaim-Caudle's study (1973) uses the same terminology which is adopted by the ILO: "it refers to rights of individuals to provisions which have the objective of (a) granting curative or preventive medical care; (b) maintaining income in case of involuntary loss of earnings or of an important part of earnings, or (c) granting supplementary incomes to persons having family responsibilities" (ILO, 1972, p 2; quoted in Kaim-Caudle, 1973, p 9).

Kaim-Caudle (1973, pp 9-11) draws up a typology of social security provisions. According to this typology social security not only includes organised income maintenance services provided by the state, but it also encompasses indirect benefits provided through fiscal measures, and those provided by voluntary organisations as well as occupationally-linked benefits provided by employers. Statutory provisions of social security include (a) social insurance schemes which provide income maintenance, health care, and



related benefits to insured workers, (b) means-tested social assistance, (c) demogrant allowances, (d) a variety of mandatory benefits provided by employers, such as workmen's compensation and redundancy payments, and (e) tax allowances and concessions. Non-statutory provisions include (a) the payment of sickness benefits and retirement pensions to all staff, and other occupational benefits given to certain grades of staff only, all of which are provided by the employers, i.e. occupational welfare, and (b) the provision of benefits by voluntary organisations. In short, Kaim-Caudle (1973) incorporates the notion of Titmuss' (1968) "social divisions of welfare" in his typology of social security. Kaim-Caudle's typology may be too wide but nevertheless it provides a useful framework for classifying services which have been designated as social security in different countries and for making cross-national comparisons.

The ILO's definition of social security is widely used in formal definitions of social security (for example, as adopted in Kaim-Caudle's study) The ILO views social security as "the result achieved by a comprehensive and successful series of measures for protecting the public (or a large sector of it) from the economic distress that, in the absence of such measures, would be caused by the stoppage of earnings in sickness, unemployment and old age, and after death; for making available to that same public medical care as needed; and for subsidizing families bringing up young children" (ILO, 1958, p 11). This is the meaning of social security which was implicit in the ILO's Social Security (Minimum Standards) Convention No. 102 of 1952, adopted by the International Labour Conference of that year. Under this Convention social security schemes are divided into nine types of statutory provisions, namely, medical care, sickness benefit, unemployment benefit, old age benefit, employment injury benefit, family benefit, maternity benefit, invalidity benefit, and survivors' benefit.

In an earlier document the ILO had differentiated between two forms of social security, namely social insurance and social assistance (ILO, 1942). The former is financed through contributions by potential beneficiaries subsidised by employers and the state, while the latter is financed from general taxation and is subject to a test of means. The ILO also emphasised that to be described as social security these measures must be provided by the state. The ILO's definition of social security has the advantage that it corresponds to internationally comparable statistics on social security collected and adjusted by the ILO, and published from time to time in its occasional publication "The Cost of Social Security".

Despite the comprehensive range of benefits classified under the ILO's definition of social security, many ILO documents as well as those published by other organizations, such as the International Social Security Association, "place far more emphasis on social insurance than on other types of social security such as social assistance" (Midgley, 1984, p 82). This is true in the case of the 1952 ILO Convention mentioned above which did not include social assistance as one of the major types of social security. For this reason the term social security carries a notion that benefits are designed primarily for wage or salary earners rather than self-employed people, and as a form of deterrence the benefits are "earned" through regular contributions by the beneficiaries.

In practice, the term social security normally excludes certain benefits, such as education, training, housing, children's services and social case-work. On the other hand, there are benefits which are categorised as fiscal welfare which may be accounted for as social security benefits. One example is the married man's tax allowance, which is available in Britain to married men. This



allowance enhances the disposable income of married couples, though not directly paid through the social security system.

Social security schemes also differ fundamentally from commercial insurance schemes. The former is a statutory and governmental service which functions through sizeable contribution (sometimes a third, sometimes even more) from general taxation and contributions by the insured, while commercial insurance is normally a business venture in which the insurer can, and usually does, make profits from the contributions by spending less for the benefit of the insured persons.

Yet the definitions referred to in the above paragraphs emphasise more on cash transfer programmes and this reflect the narrower sense of the term "social security" which Atkinson (1989, p 99) suggests is usually used to describe the set of social security policies in industrialised countries. In developing countries it would be more appropriate to use the term "social security" to refer to an objective of government policies. According to Atkinson (ibid.) this may include several strategies that may be applied to improve the degree of such security, such as asset redistribution, labour market interventions, agricultural reform, food programmes and public works. It is this wider sense of the term "social security" that is adopted in this study. It means that if "social protection" is to exist in a society this study contends that a social security programme should include not only cash transfers but should also encompass the other strategies mentioned above. Hence these are the points to be borne in mind when recommending for an alternative social programme for Malaysia.



## DEVELOPMENT OF SOCIAL SECURITY

The term social security - an incorporation of "economic security" and "social justice" - is an American invention originating from the 1935 Social Security Act. Basically modern social security had its origin in Europe during the industrial revolution in the second half of the nineteenth century. In general the English Poor Law Amendment Act of 1834, under which for the first time the traditional relief for paupers was centralized, influenced much of the institutionalisation of social welfare in the West. However, in the Poor Law the underlying belief was that the condition of the poor was due to their own laziness and improvidence. Hence the Poor Law was less concerned with the alleviation of poverty and hardship than with establishing conditions encouraging a return to work. Pressure groups such as charitable organisations and trade unions opposed the idea of centralised social security provisions on mixed grounds; sometimes to object to poor people being allowed to abandon self-reliance, and partly due to the time and resources required to develop a funded scheme.

The first institutionalised social insurance was created in Germany between 1883 and 1889 during the rule of Chancellor Bismarck. The German social insurance system was implemented in three stages. The sickness insurance was introduced in 1883, followed by employment injury insurance scheme in 1884, and the invalidity and old-age insurance scheme in 1889 (Zollner, 1982,).

Following Germany's pioneering effort, in 1892 Denmark introduced a non-contributory pension scheme for men and women above the age of 60 years who had lived in Denmark for five year immediately before applying. The scheme was financed by local authorities who were reimbursed half the

expenditure by the state. The Danish pension scheme was more in the nature of a public assistance but without the moral stigma normally associated with the receipt of poor relief in those days (Kaim-Caudle, 1973, pp 147-48). In 1898 New Zealand became the second country in the world to introduce a means-tested non-contributory old-age pensions for men and women aged 65 years and over who had lived in the colony for at least 25 years (Kaim-Caudle, 1973, pp 156-57).

In Britain different forms of legislative intervention designed to confer some form of protection against the major social hazards were introduced between 1880 and 1911. Under the Employers Liability Act of 1880 employers were liable for industrial accidents and diseases. The workmen's compensation scheme was introduced in 1897 and coverage was extended later in 1906 (Ogus, 1982, p 151). The old-age pensions introduced in 1908 marked the first real departure from the principles of the Poor Law. The scheme provided non-contributory pensions of 25 pence a week to all men and women when they reached the age of 70 years; however, the award of the pension was subject to a means test, character test and residence and nationality qualifications (Kaim-Caudle, 1973, p 166).

Social insurance was not introduced in Britain until thirty years after Bismarck's pioneering legislation. The National Insurance Act of 1911 introduced two different forms of national insurance schemes, namely the health insurance scheme which was compulsory for all employed manual workers between the age of 16 and 70 years, and secondly the unemployment scheme under which flat-rate benefits were payable for a maximum period of 15 weeks in a year (Ogus, 1982, p 154).



The Great Depression of the 1930s and the inter-war years further spurred the development of social security systems in the West. The American Congress enacted the Social Security Act in 1935 ( and was amended in 1939), which set up a Federal scheme of old-age pensions for employees in industry and commerce. Payroll taxes were first collected in 1937 and the first monthly benefits were paid out in 1940. The Act covered retirees at age 65 and provided a lump-sum death benefit to survivors (Aaron, 1982, pp 2-3). Contributions were compulsory and had to be shared between the employees and their employers; the funds collected had to be invested in government securities, and for the first time in America contributors' right to pensions were clearly defined in law and pensions were paid out irrespective of means and unearned income (Kaim-Caudle, 1973, p 185).

In Britain the publication of the *Social Insurance and Allied Services*, commonly known as the Beveridge Report, in 1942, envisaged a greater commitment to social security. Beveridge recommended a universal, comprehensive and adequate social insurance scheme, with flat-rate contributions and flat-rate benefits which could be claimed as a right, regardless of income. These recommendations were implemented in the National Insurance Act of 1946 and was to become the basis of the "welfare state" (Kaim-Caudle, 1973, p 38). While it is true the Beveridge Report affirmed the importance of social insurance as a means of protecting individuals against social risks, Ogus (1982, p 193) asserts that central to Beveridge's philosophy was the "reciprocal model of welfare" whereby people had to earn the right to benefits through their contributions.



## THE EVOLUTION OF SOCIAL SECURITY

Several studies on the development or evolution of social security systems have been conducted mainly on schemes found in the industrial countries. For example, Kaim-Caudle (1973) and the ILO (1988) focus on the operational aspects of social security and compare levels of social security expenditures in different countries. In a study on how political forces have influenced the extension of modern social policy, Heclo (1974) provides a historical analysis of differences in the evolution of social security policies in Britain and Sweden. Gordon (1988) provides a comparative analysis of social security policies in twenty eight industrial countries, and compares the major features of those policies, their scope and adequacy as well as the structure of financing social security provisions. In this chapter the discussion on the ideologies behind the development of social security systems will be based largely on Rimlinger's (1971) work.

Rimlinger (1971) compares the historical development of social security in five industrial countries, Britain, Germany, France, the United States and Russia. The study concludes that there are several different economic conditions and political and social structures which play a role in the shaping of social security in those countries. The need for social security increases as a society becomes industrialised and that "modern social security is a by-product of the shift from agrarian into industrial society" (Rimlinger, 1971, p 7).

However, Rimlinger's study shows that the evolution of social security programmes in those five industrial countries mentioned above were influenced by different socio-economic situations. Countries which were industrialised by private entrepreneurs developed their social security programmes when

economic development was beyond the industrialization phase. The United States, England and France are examples in this group. Secondly, social security was developed as a means of reinforcing the traditional relationships between the "ruling" and the "lower" classes in the countries where industrialisation was achieved in an authoritarian political and social structure, of which Germany and Tsarist Russia were examples. Thirdly, social security was developed by the direction of a ruling totalitarian party under socialised industrialisation, such as in Soviet Russia.

Rimlinger's study is based on a theory of industrial functionalism. As industrialisation becomes more advanced a common institutional pattern emerges, based on the functional relation between the industrial economy and the social structure. Rimlinger asserts that social security develops out of the changing nature of want. With the development of the industrial society in the eighteenth century two major changes emerged. Firstly there were economic and social changes such as a market for labour and the promise of greater affluence, and secondly there emerged a radical new conception of rights of the individuals.

Rimlinger's examination of the relationship between the economy and social security assumes a close functional relationship. Social security develops in conjunction with and is functional to industrialisation and the market economy. It affects the quantity and quality of a country's manpower resources. As industrialisation progressed, labour became not only scarce in relation to capital but it achieved a much higher level of skill. Its willingness to cooperate in large scale organisation became important. Thus it became profitable from the point of view of productivity to develop and to maintain the capacity and the compliance to work.



According to Rimlinger, social insurance is a way of investing in human capital. In the Soviet economy "social insurance has been an important means for the maintenance of industrial discipline" while in the market economies "its explicit work incentive role is less important, but its role as an automatic stabilizer is much more significant" (Rimlinger, 1971, p 10). Therefore social security's role as an automatic stabilizer for the maintenance of industrial discipline imply that people do not get benefits without earning for them through contributions and that they stand to lose entitlement to benefits (like pensions and other occupational welfare benefits) if they leave their jobs. Also they get much less income when they are out of work.

Rimlinger views the development of the state and the market as complementary. This implies a functional relationship between the state and social security and industrialisation. The major task of social security "was to wipe out the extremes of inequality and insecurity in order to attenuate alienation and alleviate suffering" (Rimlinger, 1971, p 341) and with the advent of industrialisation social security becomes "a means of integrating the individual into the society as a whole, a means of enabling him to participate to a greater extent in the common possession of our industrial civilization" (ibid.). Although we may doubt whether Rimlinger adopts the right priorities on the basis of a really independent analysis of the distribution of income, this brings out the variety of objectives which different countries do not all serve in the same way. Some predominate over others. Control, for instance, can dominate the motivation to "alleviate suffering".

In the concluding chapter of his study, Rimlinger states that the maintaining of a standard of living achieved through work rather than preventing poverty will become the accepted standard for mature industrial societies, and that inequality arising from work appears necessary and legitimate. Rimlinger



further states: "It is only by helping the citizen to maintain the rather higher standard of living to which he has become accustomed that modern social security can prevent what Runciman call "relative deprivation" and the sense of social justice that it generates. In mature industrial society, social security, therefore, has the dual task of eliminating unacceptable manifestations of economic and social inequality and of maintaining inequalities that are legitimate and purposeful" (Rimlinger, 1971, p 343). These statements illustrate the functional unity between industrialisation and social security and imply that as society matures social security ceases to play a role in pacifying the working class, but rather becomes socially ameliorative and produces (it is believed) integration and harmony. But plainly much will depend on the assessment of inequality (especially the degree of inequality which is necessary or natural to the division of labour) and the adequacy of low-level benefit payments or indeed their coverage.

Analogous to Rimlinger's theory of industrial functionalism is Mishra's [1977] (1987, chapter 3) convergence theory, which emphasises the functionalist role of industrialisation in shaping the institutions of welfare. This theory explains the nature and development of the social situations in industrial societies in terms of "the 'pull' (requirements or functional necessities) and the 'push' (consequences) of an industrial technology and economy" (Mishra, 1987, p 40). Mishra (ibid.) argues that "the key determinant of the social structure of advanced industrial society is neither ideology, nor class conflict, nor again culture, but technology". In the long run the problems and long term solutions in these societies are conditioned by the consequences and requirements of industrial technology.

The political elite leading the process of industrialisation moulds the process of industrialisation to its own ideology and interests. In countries where

industrialisation is led by the middle-class who believe in the freedom of the market place, a "residual" form of welfare is likely to develop. On the other hand, where industrialisation is led by dynastic or traditional groups, such as in Germany and Japan, social policy tends to be paternalistic. The state accepts a measure of responsibility for workers' welfare in return for loyalty of the worker, and this collectivist tendency of the state leads to the formation of an "institutional" pattern of welfare provisions. In communist industrial states, it is the state which assumes full responsibility for meeting the needs of its population. Resources are distributed on the basis of need, as interpreted at the centre, and a "structural" pattern of welfare provisions becomes the norm. These different patterns of welfare provisions refer to the early phases of industrialisation. As societies become more advanced, these systems are modified with a convergence towards the centre; a common institutional pattern of welfare emerges, based on the functional relation between the industrial economy and the social structure.

In contrast to Rimlinger's and Mishra's theories, George (1973) advances the idea that it is social class conflict which has played a very dominant part in the formulation of social security. While it is true that government policies benefit the poor in varying degrees, they also tend to safeguard the interests of the ruling class. George's model of a social system is one of conflict of interests rather than consensus of values and interests between the working class/poor and the upper class/rich, and that the upper classes have been able to resolve conflict situations to their advantage (George, 1973, pp 1-2). His analysis of the development of social security in Britain shows that the ruling class ensured that social security provisions always took into account the ideologies and interests of the ruling class either openly or in the name of national interests. For this reason social security services (at least in Britain) "have developed into a complex administrative maze which openly reinforces the



inequalities of the wage system and helps to accommodate the working class to its inferior position in the social structure" (George, 1973, p 36).

The development of social security provisions in the advanced industrial countries could be seen from the theoretical perspectives discussed above as a natural or evolutionary process. It is the very process of industrial development which created the need for social security, but of course the underlying reasons for introducing the provisions depend upon which theoretical perspective we adopt.

### SOCIAL SECURITY IN THE THIRD WORLD

In developing countries traditionally the family and kinship/community-based institutions like mutual benefits societies catered for the needy people. However industrialisation, urbanization and social mobility have resulted in the disintegration of traditional forms of social protection. Development creates the need for formal social security provisions.

The origin of the modern-day concept of social security in several Third World countries could be traced back to poor relief policies introduced by the colonial rulers of the metropolitan countries (Midgley, 1984, chapter 5). In particular the British favoured social assistance (also known as public assistance) schemes which were derived from principles of the English Poor Law of 1834 which distinguished between the deserving and undeserving poor. Social assistance was introduced in Jamaica as early as 1682, in Mauritius in 1902, in Trinidad and Tobago in 1931, and in Malaysia in 1948.



In general social assistance schemes found in Third World countries are used to meet contingencies by providing different kinds of benefits - monetary benefits are commonly paid but other benefits in kind such as clothing and food parcels are also provided. These schemes are strictly means-tested, low income is the principal determinant of eligibility. In India, for example, a claimant has to be totally destitute so as to qualify for assistance. In Malaysia benefits are not provided for claimants who have relatives who are liable and able to support them. Furthermore there is the tendency for benefits to be biased towards claimants in the urban areas. Theoretically all needy people qualify but most rural dwellers are excluded through the administrative technique of limiting procedures for receiving and processing applications in the larger urban centres.

In general we may safely classify social assistance in Third World countries as residual welfare. For example, in Malaysia economic development planners regard the role of social welfare services as marginal to the development process precisely because these services do not generate income. Under the Fifth Malaysia Plan (1986-90), for example, development expenditure for welfare services, at \$34 million (5MP, App. A), formed only 0.08 percent of the total development allocation. The residual role of social assistance is illustrated further in Table 11.1. Between 1980 and 1983 public (or social) assistance forms a minute proportion, ranging between 1.3 percent and 2.3 percent, of the total expenditure on social security benefits. What is urgently needed is a reassessment of the role social assistance can play in ameliorating the problem of poverty and deprivation.

**Table 11.1****Malaysia: Distribution of Social Security benefits expenditure (as percentage of total benefit)**

	1980	1981	1982	1983
Social Insurance	58.2	30.1	39.8	45.2
Public employees military and civilian	40.5	67.6	57.9	52.8
Public assistance	1.3	2.2	2.3	2.1
Total benefit expenditure (in million \$)	437.4	863.5	1012.6	1192.4

Source: ILO, 1988, Table 5, p 97 (adapted)

After the Second World War international agencies such as the ILO (International Labour Organization) and the ISSA (International Social Security Association) have played prominent roles in the diffusion of social security schemes in developing countries (Rys, 1964). Within this "international cooperation factor" (Rys, 1964, p 3) such international agencies have promoted the spread of social security programmes by providing channels for the exchange of information, materials and expertise.

Subsequently what emerges in developing countries is a trend of adopting social security models from advanced countries. Often these programmes are adopted deliberately according to the country's needs and then adapted to the circumstances within the country. Hence there is the belief that "developing countries, unlike the pioneers of industrialisation, do not have to demonstrate

the practicality of modern social rights; their problem is one of choosing the most suitable pattern. There is a pattern that corresponds to the needs of the country; one that is consistent with its development goals and that is adapted to its social and economic order" (Rimlinger, 1971, p 334). Rimlinger is in the opinion that developing countries could choose one or a combination of social security programmes which are already in existence in developed countries.

However, Midgley (1984, p 179) contends that recommendations by international agencies such as the ILO and the ISSA were based on "modern" conceptions of welfare, in particular social security based on the concept of social insurance, which are largely appropriate for Western, industrial societies rather than developing societies. Social security in developing countries should be seen as part of the overall income maintenance programmes which caters to the needs of the population, particularly those in the lower income brackets, and not necessarily as programmes protecting the welfare of workers only. But that would seem to depend upon accepting a class or conflict model of the development of social security (see George, 1973 and 1983), and to

### SOCIAL SECURITY AND INCOME REDISTRIBUTION

While it is true that social security redistributes income within a country's population, the crucial question is whether redistribution is of a horizontal or vertical nature and to what extent this redistribution mechanism benefit the lower income groups, particularly in developing countries.

Social security has two channels for income redistribution. Firstly there is the collection of funds necessary for financing the system, through taxation and social insurance contributions. Secondly redistribution takes place through the



provision of benefits; either cash and other benefits provided by social insurance programmes, or benefits which are provided according to a claimant's eligibility and financed out of public revenue such as public assistance and non-contributory old-age pension schemes.

Paukert (1968, p 449) argues that it is not possible to be precise about vertical redistribution of income. Nevertheless developing countries tend to spend a large proportion of social security expenditure on public employees while other schemes are rather fragmentary, thus resulting a regressive form of redistribution. This is true in the case of Malaysia where expenditure on benefits for public employees forms more than half of total benefit expenditure (refer to Table 11.1). Furthermore the Malaysia has a non-contributory pension scheme for public employees who were appointed into service before 1987. This means that the scheme is financed out of general revenue, of which the lower income groups (themselves not necessarily covered by any social security scheme) contribute through general taxation. On the contrary expenditure classified under public assistance forms a tiny proportion of total benefit expenditure and it is this category of benefit which deals directly with the poorest members of the population and therefore has a more direct redistributive effect.

Midgley (1984, Chapter 5) argues that social security has failed to redistribute resources and even accentuated inequality in developing countries. In these countries social security caters only for a small proportion of the labour force who are engaged in regular wage employment in the modern sector of the economy. Thus inequality is reinforced and exacerbated because the majority of the population who work in subsistence agriculture or the urban petty commodity sector are excluded from the social security system.

A larger modern sector in the country's economy also mean a wider coverage in terms of social security provisions. This in turn leads to a larger proportion of the national resources which passes through the social security system. To a large extent there is a correlation between the share of national income devoted to social security and the level of economic development in a country (Paukert, 1968, p 431). As a case in point, Table 11.2 compares receipts and expenditure of social security schemes as percentages of GDP in Malaysia and its neighbour Singapore. Malaysia's receipts and expenditure are proportionately less than those of Singapore. A major reason for this difference is Singapore's position as a newly-industrialised economy, and the absence of a rural subsistence sector and almost all of its workforce are in the formal industry and services sectors, whereas in Malaysia there is a larger proportion of the working population in agriculture, whether self-employed, labourers or tenant farmers<sup>1</sup>.

1. The following table compares the proportion of the labour force (in percentages) in the three major sectors in Malaysia and Singapore for the year 1987.

	Agriculture	Industry	Services
Malaysia	31.8	23.2	45.0
Singapore	0.9	35.1	60.0

Source: World Labour Report, 1989, Table A-2, p 156 (adapted).

**Table 11.2**

Malaysia and Singapore: Receipts and expenditure  
of social security schemes (as percentage of GDP  
in purchasers' value)

	Receipts	Expenditure	
		Total	Benefits
Malaysia			
1980	4.0	1.0	0.8
1981	5.4	1.6	1.5
1982	6.4	1.7	1.6
1983	6.3	1.8	1.7
Singapore			
1980	12.0	3.8	3.5
1981	13.2	6.4	4.0
1982	15.4	6.9	4.2
1983	16.2	8.3	5.2

Source: ILO (1988), Table 2, p 73 (adapted)

Still, there are those who tend to emphasise on the "quasi-fiscal" function of social security schemes because funds are used as a source of term finance for the country's economic development. Shome (1978) cites the case of Malaysia where savings generated through social security institutions form a significant stable source of long-term investment for economic development. In 1988 the investments by Malaysia's Employment Provident Fund accounted for \$31,621 million or 58 percent of all the outstanding government securities (TER, 1988/89, p 93).



Likewise, in Singapore and Chile compulsory pension funds have contributed significantly to the supply of long-term investment funds (World Development Report, 1989, p 107). In Singapore the accumulated resources of the country's Central Provident Fund are now equivalent to about 65 percent of the country's GNP. In Chile, since 1981, compulsory pension contributions, at 10 percent of salaries, are privately managed by competitive firms. In the first eight years the system has functioned, the total value of assets grew to about 18 percent of GDP and two-thirds of the funds are invested in government securities.

### SOCIAL SECURITY SCHEMES IN MALAYSIA

Contemporary social security schemes in Malaysia derived its origin from provisions introduced during the colonial era. Apart from the social assistance scheme, which had been discussed briefly earlier in this chapter, Malaysia's social security schemes tend to be related and therefore covers those in the waged or salaried groups. The earliest social security provisions were a workmen's compensation scheme which was established in 1929, and an employer liability, sickness, and maternity scheme for plantation and tin mine workers which was introduced in 1933 (Midgley, 1984, p 144).

What follows in this section will be a somewhat descriptive analysis of the major Malaysian social security schemes. Currently there are some twelve social security schemes in the country, although only a few schemes are national in coverage and function. Basically there are four main methods of providing organised social security for the Malaysian labour force.

## **EMPLOYER'S LIABILITY SCHEME**

First, there is the employer's liability scheme as in the case of employment injury compensation under the Workmen's Compensation Ordinance of 1952, and the sickness and maternity benefits under the Employment Ordinance of 1955. These schemes are entirely the responsibility of the employers, who are legally bound to meet the costs and provide benefits to their workers who qualify for such benefits.

The ILO considers the workmen's compensation law as a "Primitive form of protection" (ILO, 1974, p. 3). Since the responsibility of payment of compensation is placed on the employer, employers who are not financially stable may find it difficult to discharge their obligations to the injured workers. In the case of heavy financial liabilities arising out of permanent disablement or fatal cases, small or financially weak employers might become insolvent. Hence it is a common practice for employers to purchase commercial insurance schemes to cover their liabilities under the workmen's compensation scheme. Furthermore, payments of compensation is not automatic. In the case of death or if the worker is permanently disabled, claimants might encounter difficulties in enforcing their claims. Delays in the payment of compensation "appears to be inherent in the Ordinance" (ibid.). The payment of a lump sum has its disadvantage as the lump sum often diminishes in a short period and the victim becomes a charge of public welfare.

## **SOCIAL INSURANCE**

Secondly, there is the social insurance system which was established under the Employees' Social Security Act of 1969. It also meant that for the first time



the principle of social insurance and the pooling of risks and finances was introduced in the country. This scheme covers workers who earn less than \$1000 a month and is financed by contributions from workers and employers, and administered by a central government agency, the Social Security Organisation, popularly known as Socso. Benefits are paid out in the form of periodical payments on an earnings-related basis. There are two schemes which are covered under this Act; the Employment Injury Insurance scheme and the Invalidity Pensions scheme. Under the first scheme the employee does not make any contribution, but the employer is required to contribute about 1.25 percent of the employee's monthly earnings. The benefits provided include medical benefit, temporary disability benefit, permanent disablement benefit, dependents' benefit, funeral benefit and rehabilitation benefit. The Invalidity Pensions scheme provides coverage against invalidity or death due to any cause. Payments of contributions are equally shared between the employer and the employee, each party contributes at the rate of 0.5 percent of the employee's monthly wages. The benefits provided are related to temporary or permanent disability and rehabilitation, funeral grant and survivors' pension. This scheme, however, do not apply to those workers who are covered by the Employees' Provident Fund scheme.

Contributions by employers may appear as a transfer of income from employers to workers. However, in reality it is difficult to comprehend whether the income of employers are really affected by social security contributions. Paukert (1968, pp 440-41) believes that the real incidence is on consumers because employers are able to assume their contributions as production costs and transfer them to the consumers, and thus social security benefits financed out of employers' contributions represent a redistribution of income from the consumers to the insured persons.



In 1987 some 80,340 employers and 3.39 million employees were registered with Socso, and the accumulated contribution funds totalled \$147.6 million. Total investments by Socso amounted to \$1261.6 million of which 83 percent were in government securities. Benefits paid out for that year amounted to approximately \$46 million, equivalent to 3.6 percent of the total investments (Socso Annual Report, 1987, p 10). This reinforces the argument that social security contributions play a prominent role in the supply of long-term investment funds for the country's economic development.

### PROVIDENT FUND

For the majority of workers outside the public sector there is the statutory provident fund which provides retirement benefits under the Employee Provident Fund Act of 1951. Popularly known as the EPF, this scheme consists of individual and entirely separate accounts for each worker, into which the contributions of the worker and the employer are accumulated to earn dividends until the amount is paid out in a lump sum on the occurrence of the prescribed contingencies of retirement, invalidity or death, provided that retirement is not before the statutory retirement age of 55 years. The contributions are made up of on a ratio of 45:55 between employee and employer and amounts to 20 percent of the employee's monthly earnings. Although the fund was initially set up for the waged and salaried groups, since 1977 the self-employed could become members too, but agricultural workers are specifically excluded from the fund.

There is a provision for those who have reached the age of 50 years to apply for an advance of one-third of their savings. Those who intend to emigrate may request for authorization to withdraw all their savings before reaching retirement age. Employees are also allowed to withdraw 20 percent of their

savings, subject to a maximum withdrawal of \$20,000, for the purchase of housing.

In 1988 some 5.3 million employees were registered with the EPF, - quite an impressive figure - but it was not stated what proportion of these were active savers who paid contributions regularly. As in the case of the social insurance scheme, savings accumulated with the EPF are invested in government securities. In 1988 investments by EPF totalled to \$35.5 billion, of which 91 percent were in government securities (Utusan Melayu, 18.2.1989).

Provident funds, though useful in its own way, has its limitations. It provides for a measure of protection for old-age but where invalidity is concerned, it can hardly provide the desired income security. Lump sum payments do not provide the life-long security as is available under a scheme of social insurance which provides periodical payments throughout life. Furthermore, the provident fund has the disadvantage of not pooling risks. Benefits are based directly on contributions and, therefore, they are not always sufficient to deal adequately with the contingencies which may arise. Unlike insurance-funded pension schemes, which pay regular benefits and provide a steady income, the lump sum may be small and, thus, is soon used up. This problem is particularly pressing in the case of workers who are invalided or die at a young age or who join the fund shortly before retirement.

### CIVIL SERVICE PENSION

The Government Pensions Ordinance of 1951 introduced a non-contributory pension scheme for civil servants. This Ordinance was amended subsequently by the Pensions Act of 1980. This scheme provides income protection for all



employees in the public sector who were appointed to office before 1987<sup>2</sup>. Benefits provided under this scheme include those relating to employment injury, disability pension, superannuation and derivative pensions for dependents in the event of death while in service and death after retirement.

The generous provisions of the civil service pension scheme is funded substantially by the government from tax revenues and this is a manifestation of the power of civil service elites in securing generous provisions for themselves. Table 11.3 shows the gradual increases in government expenditure on public pensions and gratuities over the years between 1984 to 1989. This trend reflects a system in which members of low income groups not covered by social security are at a disadvantage, not only by being excluded in coverage but also as a result of their contributions to the general taxation, which are provided largely by the low income groups through regressive indirect taxation and the overtaxation of agricultural produce (the smallholders' export cess mentioned in Chapter 9 is an example).

**Table 11.3**  
Expenditure on Public Pensions and Gratuities

	Amount (\$million)	as % of total operational expenditure
1984	681	3.4
1985	775	3.9
1986	817	4.1
1987	938	4.6
1988	1021	4.8
1989	1050	4.7

Source: TER 1988/89, Table 4.5, p xxxvi.

2. Public employees who are appointed into their jobs since 1987 are covered by the EPF scheme instead of the civil service pensions scheme.



## AUXILIARY SCHEMES

There are other social security schemes which are limited in coverage but worth mentioning in this chapter. The first one is the Smallholders' Social Security Scheme, which was started on March 26, 1982. The scheme is administered by Risda (Rubber Industry Smallholders Development Authority), a federal government agency. This is a social insurance scheme which covers all registered working smallholders and their families. Benefits provided include lump sum benefits of \$10,000 which are paid for contingencies arising out of death or permanent disability, \$200 a year for medical expenses in the case of temporary disability, and \$25 weekly (for a maximum of 104 weeks) for loss of income due to injury or sickness. Smallholders contribute \$1.20 per month for a period of six years (Amin, 1982, pp 127-28). However, there is no provision for old-age income protection - presumably those who are not able to support themselves adequately during old-age have to seek social assistance.

Additionally, two states have implemented non-contributory income maintenance schemes for two groups in the population (Amin, 1982, pp 171-73). In 1978 the Trengganu state government introduced a system of social security for fishermen who were born and are residing in the state. Financed fully by the state government, with annual allocations of \$150,000, benefits include a lump sum payment of \$3000 for death due to accident at sea, or \$2000 for invalidity or permanent disability as result of the accident. Other benefits include hospital allowances, compensation for loss of boat, and contribution towards cost of repair of boats. Fishermen need not be registered in order to be covered by the scheme. In the event of contingencies claims are made by the fishermen or members of his family. Some 12,000 fishermen are covered by this scheme.

In 1979 the Sabah state government introduced an Old Age Assistance Scheme for Malaysian citizens who are permanent residents in the state. The scheme provides a financial assistance of \$60 per month for those over the age of 60 years, on condition that they do not have any disposable income and are not in receipt of any social assistance and are not adequately provided for by their children. The state government allocates \$17 million annually towards this scheme.

### SOCIAL SECURITY IN MALAYSIA - A REAPPRAISAL

The above account of different social security schemes in Malaysia shows that different benefits are not neutral so far as coverage, adequacy and redistributive effects are concerned. There is definitely a case for a comprehensive income maintenance programme which would provide a wider coverage, particularly for those earning low incomes. The crucial question is to what extent are the Malaysian social security and income maintenance programmes geared primarily to meeting the needs of the lower income groups.

The Malaysian economy is intrinsically agricultural in nature. In 1988, for example, 33 percent of the labour force work in agricultural sector while 59 percent of the population live in the rural areas (SMP, pp 119; 134). In 1976 the Socso scheme was extended to cover workers in the modern agricultural sector, i.e. the plantation sub-sector. Subsistence farmers and fishermen as well as those in the urban petty commodity sector are, however, excluded from the scheme and these groups do not have any income protection from contingencies such as old age, invalidity or death.



There are at least two cogent reasons why social security income maintenance programmes should be extended to the lower income groups, especially those in the subsistence rural and the urban petty commodity sectors. These groups make significant contributions to the economy. For example, in 1988 rubber smallholders produced 71 percent of the nation's total rubber production (R5MP, p 59). In 1985 rice farmers produced 76 percent of Malaysia's domestic rice consumption (5MP, p 304). These are examples of groups who toil under unpleasant conditions to provide for the nation's prosperity, yet they are not covered by any major income protection scheme.

Private savings as a means of protection against unforeseeable circumstances cannot be considered as an effective substitute for income maintenance purposes. Furthermore, people who earn low incomes, especially in the rural sector where price fluctuations are not uncommon, are unlikely to have enough income to be saved for contingencies like sickness and old age. Thus there is an urgent need to examine the appropriate type of income maintenance programme for those not yet covered by the major social security schemes.

There are several examples which may serve as models for the future income maintenance and social security programmes in Malaysia. For instance, Euzeby (1987, pp 253-276) proposes a scheme which guarantees a minimum social income for persons whose income are below the poverty line. This scheme could be integrated into the existing network of welfare benefits and financed by local welfare committees and social security bodies and contributions by the state. This would allow the creation of an *ad hoc* "solidarity fund", which could be used to finance the minimum income scheme and also provide specific reintegration activities such as training courses and apprenticeships. Euzeby's (ibid.) proposal is based on broad principles currently applied by France in its anti-poverty programme.



Brazil has a special social security scheme which provides medical care and limited cash benefits for the rural population (Malloy, 1979, chapter 5). The country's Rural Workers' Assistance Fund or FUNRURAL was established in 1963. The insured workers make no direct contribution to the fund. The Fund provides four flat-rate cash benefits, namely, a monthly retirement benefit for those aged 65 years and over, a benefit for invalidity, a monthly survivors' pension, and a one-time funeral benefit - all are one-half of the highest national minimum salary. Additionally curative medical assistance is also available to injured workers. The scheme is funded by a 2 percent tax on rural products paid by wholesalers and a 2.5 percent tax over the wage bill of urban enterprises.

### SUMMARY AND CONCLUDING REMARKS

The discussion in this chapter has concentrated first on the theoretical perspectives of the evolution of social security in industrial societies. In those societies industrialisation was an important factor in the development of social security. The chapter has concentrated, secondly, on the evolution of social security in developing countries, especially Malaysia. In developing countries international agencies like the ILO and the ISSA have played a role in the spread of Western-type social security institutions based on the principle of social insurance. As such social security in the Third World, including Malaysia, tends to be biased towards those in regular waged or salaried employment, while the vast majority of the labour force are not covered by any income protection scheme. Furthermore, social insurance contributions lead to a regressive form of redistribution as employers tend to pass on the cost of their contributions to the consumers.

Those concerned with social planning and development in Malaysia should recognise that, like other social policies, social security and income maintenance programmes should be seen as remedial rather than curative welfare provisions. The "preventive" objectives of income distribution deserve close attention. Hence the evidence from the comparative analysis in this chapter supports the need for extended income maintenance programmes especially for low income groups.

## Chapter Twelve

### CONCLUSIONS AND POLICY RECOMMENDATIONS

#### THEORETICAL ACCOUNTS OF DEVELOPMENT

This thesis examines the social, political and economic development of Malaysia with particular reference to trends in poverty and the alleviating effects of different policies, particularly income maintenance. Its principal conclusion is that a complex strategy directed towards equality of opportunity, investment in new forms of employment, development of balanced regional employment are necessary pre-conditions of the elimination of poverty and that an accelerated development of income maintenance programmes, especially for children, old and disabled people, will be a necessary feature of anti-poverty programme.

The analysis begins with the theoretical background of development in Peninsula Malaysia. In chapter Two the discussion centres upon the main paradigms of the development and underdevelopment debate. The theories of modernisation, dependency and world-system are critically reviewed. This study rejects the applicability of the modernisation thesis because of its emphasis on the diffusion of Western values, which are argued to be inappropriate in the Third World countries. The modernisation perspective views Third World poverty too much as a consequence of failure of the poor countries to transform their economy in line with the Western model of social, cultural, technological and political development. The dependency theory, which perceives Third World poverty as a result of the exploitation of these



countries by the industrialised countries, is pessimistic about improvements by the poorer nations - any improvement could only be achieved by a global socialist revolution, the occurrence of which is questionable. There are of course theoretical off-shoots and modifications of both these schools. The world-system theory, a tributary of the dependency school, is more appropriate in the analysis of underdevelopment in Third World countries because it stresses the social factors of development and emphasises the value of increasing a country's self-reliance, for example in food-production, in order to achieve economic progress. For this reason this study inclines towards this perspective. Yet this does not mean that the country has to be detached from the world capitalist system. What is recommended for different Third World countries is an attempt to reconcile the national economy's vulnerability to external forces by adopting selected de-linking strategies with the centre economies. The balance of evidence seems to favour this alternative as both possible in practise and politically realistic. At the same time, there should be a stronger cooperation between the peripheral economies which would lead to a mutually advantageous South-South relationship in place of an exploitative North-South relationship.

## HISTORY OF ECONOMIC DEVELOPMENT

Chapter Three seeks to provide the historical analysis to correspond with the theoretical stance. It traces the penetration of colonial capitalist economy in the Malay Peninsula from the 1880s. The extraction of tin and the cultivation of rubber by colonial entrepreneurs, and the importation of labour from India and China saw the beginning of Malaysia's integration into the global economic system, and turned the country into a dependent economy. The liberal colonial immigration policies turned the Malay Peninsula into a plural society; ethnic divisions were discernible vocationally and spatially - the Malays prevailed in

the rural areas, the Indians worked in rubber plantations and the Chinese were employed in the tin industry and the commercial sector of the urban centres. Colonial policies on infrastructural and social development gave priority to the needs of the expatriate community. The voluminous incomes accrued from the export of rubber and tin were repatriated to Europe. The British gave little attention to the economic advancement of the Malay peasantry. In general there was small concern for the social needs and welfare of the population.

Chapter Four goes on to analyse some of the crucial features of economic development in independent Malaya. The government's allegiance to priority for economic growth came to be pursued along a capitalist path. No conscious plan was evolved to introduce radical reform of the economic and social structure. Inter-ethnic inequalities and the problem of rural poverty persisted, as resources were not equitably distributed so as to mitigate social inequalities. The racial riots of May 1969 provided a watershed in the state's planning philosophy. A re-evaluation of national economic and social policies was assumed and the New Economic Policy was formulated for the period 1971-1990. This accepted equal opportunity principles without yet implementing them more than marginally in practice.

Chapter Five concentrates on the more recent period of the debate about economic development and examines the economic and social development policies in Peninsula Malaysia from 1971. Conscious efforts by the state in attempts to reduce poverty and mitigate ethnic inequalities did not produce the desired results. A general reduction in the incidence of poverty did not lead to an equitable distribution of income and resources within the population. Rural-urban inequalities and rural poverty are some of the issues that needs further examination.



## THE PROBLEM OF POVERTY IN MALAYSIA

The issue of poverty was regarded as central and was therefore given separate attention. As a prelude in the inquiry on the state of poverty in Peninsula Malaysia, chapter Six then examines the main approaches in determining the level of poverty. The concept of absolute or subsistence poverty appears to be popular in several developing countries including Malaysia. On the other hand, as prompted by bodies like the ILO, the basic needs approach has been adopted more enthusiastically by countries like China and Tanzania, where attempts to emphasise self-reliance have achieved some degree of success.

Not only must poverty, in its alternative senses, be shown to exist widely. It has to be explained if appropriate action to deal with it is to be adopted. Chapter Seven presents some theoretical explanations of poverty in Malaysia, mainly based on a structural-institutional framework. Malaysian scholars of poverty relate the causes of poverty, particularly rural poverty, to issues of exploitation, not only by middlemen, but also as a result of Malaysia's dependence on international trade and the effects of global economic cycles on prices of primary commodities. This thesis has found their inspiration highly relevant to Malaysian poverty today. In chapter Eight some methods of determining the poverty line income in Peninsula Malaysia are reviewed, as the minimum subsistence income adopted by policy makers would have implications for the level and adequacy of social benefits and therefore calculations of the resources to be found from production and reproduction.

Malaysian anti-poverty policies, as discussed in Chapter Nine, appear to be influenced by forms of traditional neo-classical economic practice which are acceptable to the World Bank. Reforms are carried out in what has been



characterised as a Liberal-Pluralist manner; the state implements an incremental rather than a comprehensive structural approach in its policies. It is true that the state, in combination with industrial management, has succeeded in raising the absolute levels of income of the poor and subsequently reducing the incidence of absolute poverty, but the paradox lies in the existence of structural inequalities, in terms of income differentials and ownership of wealth between the rich and the poor, and also in terms of the biased distribution of social services in favour of the urban rather than the rural areas. There are worrying indications that these fundamental problems in the Malaysian social structure and economy are not yet being addressed.

### STRUCTURAL PROBLEMS AND SOCIAL SECURITY

One major problem is gender. Chapter Ten explores the position of women in the Malaysian economy. Structurally capitalist labour market reduces the position of women in the labour force to a peripheral status; women are not equitably rewarded for their reproductive responsibility - nor even for the real value of their contribution to conventionally defined industrial production. Industrialization policies which rely on the transnational corporations in the expansion of employment exacerbates the marginalization of the female labour force. Labour unions do not promote issues pertaining to women and work. All these have serious implications for the provisions of social security for women and partly explains the unsatisfactory structure of social security benefits.. The question of gender therefore requires much more prominence in planning and policy documents. The issue of female poverty and its possible alleviation and elimination, for instance, needs further examination.

In chapter Eleven some of the specific issues of social security and income maintenance are examined. Malaysia does not have a comprehensive social security and income maintenance policy. Existing social security programmes, based on social insurance contributions, are shown to be biased towards those in regular waged or salaried employment. The only non-contributory income maintenance programme available is the social assistance programme, which is based on strict tests of means. Because government expenditure on welfare transfer programmes is small, social assistance cannot be an effective poverty relief programme. Hence this study calls for an alternative non-contributory social protection scheme for those who are not covered by any existing schemes.

### TOWARDS AN ALTERNATIVE STRATEGY

Some specific alternatives are prompted by this analysis of existing social security and development programmes. The principal social security and income maintenance programmes in Malaysia have been examined. On the whole the schemes are limited in coverage and inequalitarian in nature. It must not be assumed that social security coverage will expand with economic development or that the problem of unequal access will be solved when more people are absorbed into wage employment. Therefore there is a case for a major reform of the existing system.

At least two scholars have proposed new schemes in addition to the existing programmes. In a study on the distribution of economic rewards in Malaysia, Mehmet (1986, pp 169-70) proposes a "need based social safety net" as an anti-poverty measure. This scheme proposes the distribution of a National Dividend for poor households, by providing a cash supplement to each poor



household so as to push up their income at least to the level of poverty line income. Mehmet (ibid.) proposes that the system be financed by the introduction of a capital gains tax, that would redistribute income from speculators and rich rent-seeking middlemen. Mehmet claims this is an egalitarian form of redistribution since his study shows that income shares in Malaysia are not competitively determined and that those in the upper income brackets do not derive their income share through productive employment.

Amin (1982, pp 130-31) proposes a "comprehensive social security system" which would cover all primary contingencies, except unemployment benefit; - he is of the opinion that unemployment is an economic problem and thus it needs economic instead of social remedies. He calls for the need to integrate all existing social security schemes into a national system and emphasises the introduction of "a social security coverage for all contingencies facing workers including the self-employed persons through social insurance" (Amin, 1982, p 130; emphasis added). This scheme would provide sickness, employment injury, maternity, retirement and survivors' benefits. However he opposes the provision of employment injury for farmers and fishermen and proposes instead a crop insurance for farmers and a bad weather insurance for fishermen. At the same time EPF and SOCSO should continue to administer their existing functions.

Certainly there are disadvantages in the two schemes mentioned above. Inasmuch as it involves a degree of radical innovation, Mehmet's (1986) proposal should be seen strictly as an anti-poverty measure which would augment the income of poor households so as to place these households above the poverty line. It may be presumed that the scheme would guarantee provisions for members of households who are above the retirement



age group. Still, the scheme could be regarded as inadequate in the context of contingencies such as employment injury, sickness and disability.

On the other hand, Amin's (1982) proposed scheme is based on the principle of social insurance. It would mean those who want to be covered by the scheme have to pay contributions. The majority of those who are not covered by existing social security schemes are those who are subsistence farmers or agricultural labourers in the rural sector and also those people who are self-employed in the urban petty commodity producer sector. If these groups were made to pay social insurance contributions it would be an additional strain on their low income, in addition to the high incidence of regressive indirect taxes borne by them.

It is essential that social security and income maintenance programmes should be seen as a mechanism for equitable redistribution of income. For example, George (1973, p 35) recommends that the only radical and effective solution for the payment of social security benefits is a scheme without any means test and without any reference to insurance contributions. This would simplify the administrative requirements for entitlement to benefits and would also emphasise the social aspect of social security rather than its economic criteria of eligibility based on insurance contributions. Furthermore, George (1973, p 132) stresses that if social security is to achieve a substantial reduction in income inequality, it should be financed out of general taxation, and provide adequate flat-rate benefits. These are some of the principles that ought to be considered in the design of an alternative social protection programme for the low income groups.

## OPTIONS FOR THE FUTURE

What are the more general, as well as specific, income maintenance proposals for effective anti-poverty strategy? The concluding part of chapter Nine suggests some of the programmes that would reduce poverty and inequality. Land reform and the subdivision of commercial plantations into family smallholdings is one way of reducing the concentration of power, wealth and income. Secondly, the government might promote domestic food production, particularly in the rice growing sector, as this would lead to the country's self-sufficiency in food production. Additionally, a food coupons or food stamps system could be introduced for families in the lower income groups, particularly to cater to the nutritional needs of children in these families<sup>1</sup>, and this policy would also mean increasing the real incomes of poor families. Food stamp programmes have been introduced in some rich countries (for example the United States) and have been greatly criticised. Nonetheless, provided they are placed within the context of more substantial poverty alleviation measures, they can be said to have a transitional role to play in poor countries.

Poverty alleviation is not totally impossible provided there is a strong political and moral commitment on the part of those who hold the power to redistribute resources equitably. A satisfactory system of income maintenance in a wider sense, not in the narrow sense of programmes funded by social insurance contributions, will compensate for - if not entirely, partially - the problems of dependency, and would achieve the objective of a substantial reduction in

---

1. Malaysia does not have a child-benefits scheme. Only five developing countries have such schemes; namely, China, Israel, the Cook Islands, Nauru and Chile. Of these only the Cook Islands provide benefits of a uniform rate for all children under the age of six years (Dixon, 1986, pp 85-86).



income inequalities in the society. Therefore there is a need for a social protection and income maintenance programme that would serve egalitarian purposes.

One specific option that policy-makers could consider is the establishment of a non-contributory scheme specifically for the low income groups employed in the subsistence agricultural sector and the urban petty commodity producer sector. This would mean the creation of a state fund to provide limited monetary benefits or a guaranteed minimum social income, chiefly to cover retirement, invalidity, medical and survivors' benefits and a lump sum funeral grant. The level at which the minimum social income should be set would depend on several factors, such as the amount of existing income maintenance or public assistance benefits and the officially recognised poverty line income.

The crucial question that would concern policy-makers would be: what could be the sources of funding for the scheme? Funding could be raised through a variety of sources. Firstly, a special primary commodity tax of at least two percent could be imposed on primary commodities where smallholders are not affected in the production process, namely the petroleum and liquidified natural gas and the timber sectors, plus the privately-owned commercial plantation sector. It would be inequitable to impose additional taxes on all primary commodities as it would mean smallholders and subsistence farmers would also have to bear these taxes. In addition, Mehmet's (1986) proposal for a capital gains tax should also be incorporated in this special tax system.

Besides there is a need to extend social work services into the rural areas. This would give the rural population the opportunity to gain better access to



social assistance funds, medical and orthopaedic aid, and legal aid. Presently those who live in the urban areas are the ones who have better access to these services.

In summary, this study is concerned with poverty, inequality and social insecurity. Its objective has been to analyse trends in economic development in Peninsula Malaysia and explain the major factors that contribute to the problems of low income and poverty; and finally propose an alternative social protection programme especially for those in the lower income groups. The analysis led to the formulation of a special non-contributory social protection programme for those who are employed in the subsistence agricultural sector, either as farmers, fishermen, tenants or labourers, and those in the urban petty commodity sector. Such provisions inevitably would reduce the problems of relative inequality a great deal. In linking conventional analysis of poverty to the analysis of social and economic development this thesis has called attention to the need for a dual programme for those inside as well as outside the labour market.

## BIBLIOGRAPHY

- Aaron, Henry J.(1982), *Economic Effects of Social Security*, Washington, D.C.: Brookings Institute.
- Adelman, I. and Morris, C.T.(1967), *Society, Politics, and Economic Development*, Baltimore: John Hopkins University Press.
- Ahluwalia, M.S. (1974), "Income Inequality: Some Dimensions of the Problem", in Chenery, H.B *et al.*, *Redistribution with Growth*, Oxford: Oxford University Press.
- Ahmad, H.M.R. (1984), "A Federation for smallholders of natural rubber producing countries", in Chitman, P. and Tan, G.S. (eds), *The Progress and Development of Rubber Smallholders*, Kuala Lumpur: Association of Rubber Producing Countries.
- Ali, S.B. (1984), "Project Tridelta - Risda's extension intensification strategy to accelerate smallholder development", in Chitman, P and Tan, G.S. (eds), *The Progress and Development of Rubber Smallholders*, Kuala Lumpur: Association of Rubber Producing Countries.
- Ali, Syed Husin (1972) "Land concentration and poverty among rural Malays", *Nusantara*, 1.
- Allen G.S. and Donnithorne, A.G. (1954), *Western Enterprise in Indonesia and Malaya: A Study in Economic Development*, London: Allen and Unwin.
- Altmeyer, A.J.(1966), *The Formative Years of Social Security* Madison: University of Wisconsin Press.
- Amin, N.M.(1982), *The Role of Social Security in National Development*, unpublished Ph.D. Thesis, Century University, Beverley Hills, California.
- Amin, Samir (1974), "Accumulation and Development: a theoretical model", *Review of African Political Economy*, 1:9-28.  
\_\_\_\_\_ (1976), *Unequal Development*, New York: Monthly Review Press.
- Anand, Sudhir (1977), "Aspects of poverty in Malaysia", *Review of Income and Wealth*, 23 (1):1-16.  
\_\_\_\_\_ (1983), *Inequality and Poverty in Malaysia: Measurement and Decomposition*, New York: Oxford University Press.
- Andrae, Gunilla and Beckman, Bjorn (1985), *The Wheat Trap, Wheat and Underdevelopment in Nigeria*, London: Zed Books.
- Andaya, B.W. and Andaya, L.Y. (1982), *A History of Malaysia*, London: Macmillan.



- Ang, K.P (1979), *A geographical and socio-economic study of the paddy cultivation in Mukim Balai Panjang, Malacca, Peninsula Malaysia*, Singapore: Nanyang University.
- Ariffin, Rohana (1989), "Women and Trade Unions in West Malaysia", *Journal of Contemporary Asia*, 19(1):78-94.
- Atkinson, A.B.(1989), *Poverty and Social Security*, London: Harvester Wheatsheaf.
- Aziz, Ungku (1956), "The causes of poverty in Malayan agriculture", in Lim, Tay-Boh (ed), *Problems of the Malayan Economy*, Singapore: Donald Moore.
- \_\_\_\_\_ (1964), "Poverty and rural development in Malaysia", *Kajian Ekonomi Malaysia*, 1(1).
- \_\_\_\_\_ (1965), "Poverty, proteins and disguised starvation", *Kajian Ekonomi Malaysia*, 2(1).
- \_\_\_\_\_ (1975), "Footprints in the sands of time: the Malay poverty concept over 50 years from Za'ba to Aziz and the Second Malaysia Plan", in Chee, s and Mun K.S. (eds), *Malayan economic Development and Policies*, Kuala Lumpur: Malayan Economic Association.
- Atkinson, A.B. (1975), *The Economics of Inequality*, Oxford: Clarendon Press.
- Bach, Robert L. (1976), "Historical patterns of capitalist penetration in Malaysia" *Journal of Contemporary Asia* , 6(4):458-476.
- Baran, Paul (1967)[1957], *The Political Economy of Growth*, New York: Monthly Review Press.
- Barker, R., Herdt, R.W. and Rose, B. (1985), *The Rice Economy of Asia*, Washington, D.C.: Resources for the Future.
- Bauer, P.T. (1948a), *The Rubber Industry: A study in competition and monopoly*. London: Longman Green & Co.
- \_\_\_\_\_ (1948b), *Report on a visit to the rubber growing smallholdings of Malaya, July - September, 1946*, London: Colonial Office.
- Bernstein, H. (ed.) (1973), *Underdevelopment and Development*, Harmondsworth: Penguin.
- Beveridge, Sir William (1942), *Social Insurance and Allied Services*, HMSO: Cmd. 6404 (Reprinted 1978).
- Bienfield, M. (1975), "The informal sector and peripheral capitalism: the case of Tanzania" *Institute of Development Studies Bulletin* , 6:53-73.
- Booth, Charles (1903), *Life and Labour of the People in London*, London: Macmillan.
- Boserup, E. (1970), *Women's Role in Economic Development*, London: Allen and Unwin (reprinted (1986), Aldershot: Gower).
- Boudon, R. (1974), *Education, Opportunity and Social Inequality: Changing Prospects on Western Society* , New York: John Wiley and Sons.



- Bratton, M. (1981), "Development in Zimbabwe: strategy and tactics", *Journal of Modern African Studies*, 19(3):447-75.
- Brown, Muriel (1982), *Introduction to Social Administration in Britain*, London: Hutchinson (5th edition).
- Burns, P.L. (n.d.), *Peasantry and National Integration in Peninsula Malaysia*, Adelaide: University of Adelaide, Department of History, Working Paper No. 13.
- Bussink, W. (1980), "Employment and Income Distribution in Malaysia", in Young, Kevin *et al* (eds), *Malaysia: Growth and Equity in a Multiracial Society*, Baltimore: John Hopkins University Press.
- Butcher, John G. (1979), *The British in Malaya, 1880-1941*, Kuala Lumpur: Oxford University Press.
- Cardosa, F.H. (1982)[1972], "Dependency and development in Latin America" in Alavi, H. and Shanin, T. (eds), *Introduction to the Sociology of Developing Societies*, London: Macmillan.
- Chai, Hon-Chai (1967), *The Development of British Malaya 1869-1909*, Kuala Lumpur: Oxford University Press.
- Chan, P. and Lim, L.L. (1981), *Case studies of migrant settlers in three land schemes in Peninsula Malaysia*, Kuala Lumpur: Faculty of Economics and Administration, University of Malaya (mimeo.).
- Chia, Siow-Yue (1987), "Women's economic participation in Malaysia", in UNESCAP, *Women's Economic Participation in Asia and the Pacific*, Bangkok: UNESCAP.
- Coates, K. and Silburn, R. (1970), *Poverty: the Forgotten Englishmen*, Harmondsworth: Penguin Special.
- Collier, Paul and Lal, Dipak (1986), *Labour and Poverty in Kenya 1900-1980*, Oxford: Oxford University Press.
- Cowan, C.D.(1962), *Nineteenth Century Malaya: The Origins of British Political Control*, London: Oxford University Press.
- Crowder, M.(1968), *West Africa Under Colonial Rule*, London: Hutchinson.
- DaVanzo, J. and Kusnic M.W.(1983), "Ethnic differences in income in Peninsula Malaysia: their sensitivity to the definition and measurement of income", *The Singapore Economic Review*, 28(2):22-45.
- \_\_\_\_\_ and Lee, D.L.L.(1983), "The Comparability of Child Care with Market and Non-market Activities", in Buric, M. *et al* (eds), *Women and Poverty in the Third World*, Baltimore: The John Hopkins University Press.
- de la Vega, Garcilaso (ed. Geerbrant, A.)(1961), *The Incas*, New York: Orion Press.
- Dagap, M.H.(1987) *The development of vegetable production and marketing in Peninsula Malaysia: An analysis of recent trends and potentials*, unpublished Ph.D Thesis, Michigan State University, Ann Arbor.

- Dantwala, M.L.(1973), *Poverty Then and Now: 1970-1970*, New Delhi: Macmillan.
- Dixon, John (1986), *Social Security Traditions and Their Global Applications*, Belconnen, Australia: International Fellowship for Social and Economic Development.
- Dixon, R.B.(1978), *Rural Women at Work*, London: The John Hopkins University Press.
- Dobby, E.H.G.(1956), *Souh East Asia*, Singapore: Macmillan.
- Dos Santos, T.(1973)[1969], "The crisis of development theory and the problem of dependence in Latin America", in Bernstein, H.(ed.), *Underdevelopment and Development*, Harmondsworth: Penguin (pp 57-80).
- Drabble, J.H.(1967), "The Rubber Plantation Industry in Malaya up to 1922", *Journal of the Malaysian Branch of the Royal Asiatic Society*, 1.  
 (1973) *Rubber in Malaya, 1976-1922, The genesis of the Industry*, Kuala Lumpur: Oxford University Press.
- Edwards, C.B.(1975), *Protection, Profits and Policy: An analysis of industrialisation in Malaysia*, unpublished Ph.D Thesis, Universiy of East Anglia.
- Einstedt, S.(1966), *Modernisation: Protest and Change*, Englewood Cliffs, N.J.: Prentice-Hall.
- El-Mallakh, R.(1986), *The Economic Development of Yemen Arab Republic*, London: Croom Helm.
- Emerson, Rupert (1937), *Malaysia, A Study in Direct and Indirect Rule*, New York: Macmillan (reprinted 1964).
- Euzeby, Chantal (1987), "A minimum guaranteed income: Experiments and proposals", *International Labour Review*, 126(3):253-76.
- Fei, J.C.H. and Ranis, G.(1967), "The Theory of Dualistic Development", in Thorbeck, E. and Adelman G.(eds), *The Theory and Design of Economic Development*, Baltimore: John Hopkins University Press.
- Fermor, Sir L.L.(1939), *Report of the Mining Industry of Malaya*, Kuala Lumpur: Government Printer.
- Fields, Gary (1980), *Poverty, Inequality and Development*, Cambridge: Cambridge University Press.
- Forbes, D.(1981), "Petty Commodity Production and Underdevelopment: the case of Pedlars and Trishaw Riders in Ujung Pandang, Indonesia", *Progress in Planning*, 16:105-178.
- Frank, A.G.(1967)[1969], *Capitalism and Underdevelopment in Latin America*, New York: Monthly Review Press.
- Frobel, F. *et al* (1978), "The World Market for Labour and the World Market for Industrial Sites", *Journal of Economic Issues*, 12(4):843-28.



- Fuchs, Victor (1967), "Redefining Poverty and Redistributing Income", *Public Interest*, Summer:88-95.
- Gale, Bruce (1981), *Politics and Public Enterprise in Malaysia*, Singapore: Eastern University Press.
- Gaur, K.D.(1988), *Extent and Measurement of Poverty in India*, New Delhi: Mittal Publications.
- George, V.(1973), *Social Security and Society*, London: Routledge and Kegan Paul.
- \_\_\_\_\_ (1988), *Wealth, Poverty and Starvation, an International Perspective*, Hemel Hempstead: Wheatsheaf Books.
- Gerry,C.(1978), "Petty Production and Capitalist Production in Dakar: the Crisis of the Self-employed", *World Development*, 6:1147-60.
- Ghai, D.(1978), "Basic Needs and its Critics", *IDS Bulletin*, June:16-28.
- Ghai, D. and Radwan, S.(eds)(1983), *Agrarian Policies and Rural Poverty in Africa*, Geneva:ILO.
- Ghertman, M. and Allen, M.(1984), *An Introduction to Multinationals*, London: Macmillan.
- Gibbons, David *et al*(1980), *Agricultural Modernisation, Poverty and Inequality: the distributional impact of the green revolution in regions of Malaysia and Indonesia*, Fanborough: Gower.
- Gibson, C.(1966), *Spain in America*, New York: Harper and Row.
- Gordon, Margaret (1988), *Social Security Policies in Industrial Countries*, Cambridge: Cambridge University Press.
- Gullick, J.J.(1958), *Indigenous Political Systems of Western Malaya*, London: University of London Press.
- Halim, F.(1990), "The Transformation of the Malaysian State", *Journal of Contemporary Asia*, 20(1):64-88.
- Hare, Paul G.(1990), "Creating Market Economies", *The Economic Review*, May:2-7.
- Hasan, Parvez (1980), "Growth, Structural Change, and Social Progress", in Young, Kevin *et al* (eds), *Malaysia: Growth and Equity in a Multiracial Society*, Baltimore: John Hopkins University Press.
- Hassan, Osman-Rani. and Jomo, K.S.(1980), "Wage Trends in Peninsula Malaysian Manufacturing, 1963-1973", paper presented at the Sixth Convention of the Malaysian Economic Association, Pulau Pinang, 7-10 May.
- Haq, M.(1976), *The Poverty Curtain: Choices for the Third World*, London: Oxford University Press.
- Harrison, J.(1978), *Marxist Economics for Socialists: A Critique of Reformism*, London: Pluto Press.



- Hart, G.(1989), "Changing Mechanisms of Persistence: Reconfigurations of petty production in a Malaysian rice region", *International Labour Review*, 128(6):815-834.
- Haruhi, Tono (1984), "Asian Women as Victims of Overseas Expansion - a case study of Torray", *Japan-Asia Quarterly Review*, 16(1-2):60-81.
- Heclo, Hugh (1974), *Modern Social Politics in Britain and Sweden: from relief to income maintenance*, New Haven: Yale University Press.
- Hemming, Richard (1984), *Poverty and Incentives - The Economics of Social Security*, Oxford: Oxford University Press.
- Heyzer, N.(1982), "From Rural Subsistence to an Industrial Peripheral Workforce: an examination of female Malaysian migrants and capital accumulation in Singapore", in Beneria, L.(ed), *Women and Development*, New York: Praeger.
- \_\_\_\_\_(1986), *Working Women in South East Asia: Development, Subordination and Emancipation*, Milton Keynes: Open University Press.
- Hicks, N. and Streeten, P.(1979), "Indicators of Development: The search for a basic needs yardstick", *World Development*, 7:567-70.
- Hoerr, O.E.(1973), "Education, Income and Equity in Malaysia", *Economic Development and Cultural Change*, 21(2):247-73.
- Hoogvelt, Ankie M.M.(1982), *The Third World in Global Development*, London: Macmillan.
- Hua, Wu-Yin (1983), *Class and Communalism in Malaysia*, London: Zed Books.
- Huang, Yukon (1972), "Some Reflections on Padi Double-Cropping in West Malaysia", *The Malayan Economic Review*, 17(1).
- Hyden, G.(1980), *Beyond Ujamaa in Tanzania: Underdevelopment and an Uncaptured Peasantry*, London: Heinemann.
- International Bank for Reconstruction and Development (1955), *The Economic Development of Malaya*, Baltimore: John Hopkins Press.
- International Labour Organization (1942), *Approaches to Social Security*, Montreal: ILO.
- \_\_\_\_\_(1958), *The Cost of Social Security 1949-1954*, Geneva: ILO.
- \_\_\_\_\_(1972), *ILO Yearbook of Labour Statistics 1971*, Geneva: ILO.
- \_\_\_\_\_(1974), *Implementation of the Social Security Scheme, A Report prepared for the Government of Malaysia*, Geneva: ILO.
- \_\_\_\_\_(1977), *Employment Growth and Basic Needs: A One-World Problem*, Geneva: ILO.
- \_\_\_\_\_(1988), *The Cost of Social Security, Twelfth International Inquiry 1981-1983*, Geneva: ILO.
- \_\_\_\_\_(1989), *World Labour Report, 1989*, Geneva: ILO.
- Jackson, Dudley (1972), *Poverty*, London: Macmillan.

- Jackson, James C.(1968), *Planters and Speculators: Chinese and European Agricultural Enterprise in Malaya, 1786-1921*, Kuala Lumpur: University of Malaya Press.
- Jackson, R.N.(1961), *Immigrant Labour and the Development of Malaya, 1786-1920*, Kuala Lumpur: Government Printer.
- Jomo, K.S. and Shari, Ishak (1981), "Income Distribution and the Role of the State in Peninsula Malaysia: A Review", *Jernal Ekonomi Malaysia*, 3(4):212-254.
- Kaim-Caudle, P.(1973), *Comparative Social Policy and Social Security: A Ten Country Study*, London: Martin Robertson.
- Karmokolias, I.(1990), "Prospects for the Automotive Industry in LDCs", *Finance and Development*, September:47-49.
- Kasper, Wolfgang (1974), *Malaysia: A Study in Successful Economic Development*, Washington, D.C.: American Institute for the Public Policy Research.
- Kasim, Shukor et al (1983), *Final Report, Study of Strategy, Impact and Future Development of Integrated Agricultural Development Projects, Volume I*, Pulau Pinang: Universiti Sains Malaysia.
- Katz, M.(1983), *Poverty and Policy in American History*, New York: Academic Press.
- Kennedy, John, G.(1987), *The Flower of Paradise*, Dordrecht: D. Reidel Publishing.
- Khoo, K.J.(1978), "The Marketing of Smallholders' Rubber", in Salih, Kamal et al, *Rural-Urban Transformation and Regional Underdevelopment: The Case of Malaysia*, Nagoya: UNCRD.
- Kitching, G.(1989), *Development and Underdevelopment in Historical Perspective*, London: Routledge and Kegan Paul.
- Kohler, P.A., and Zacher, H.F. (eds)(1982), *The Evolution of Social Insurance 1881-1981: Studies of Germany, France, Great Britain, Austria and Switzerland*, London: Francis Pinter.
- Kusnic, M.W. and DaVanzo, J.(1980), *Income Inequality and the Definition of Income: the case of Malaysia*, Santa Monica, California: Rand Corporation.
- Laclau, E.(1971), "Imperialism in latin America", *New Left Review*, 67.
- Lall, S.(1975), "Is 'Dependence' a Useful Concept in analysing Underdevelopment?", *World Development* 3(11-12):799-810.
- Lebrun, O. and Gerry, C.(1975), "Petty Producers and Capitalism", *Review of African Political Economy*, 3:20-32.
- Lerner, D.(1958), *The Passing of Traditional Society*, New York: Free Press.



- Ley, Colin (ed)(1969), *Politics and Change in Developing Countries*, Cambridge: Cambridge University Press.
- \_\_\_\_\_(1975), *Underdevelopment in Kenya: The Political Economy of Neo-colonialism 1964-1971*, London: Heinemann.
- Li, D.J.(1955), *British Malaya: An Economic Analysis*, New York: The American Press.
- Lim, Chong-Yah (1967), *Economic Development of Modern Malaya*, London: Oxford University Press.
- Lim, David (1973), *Economic Growth and Development of West Malaysia 1947-1970*, Kuala Lumpur: Oxford University Press.
- Lim, Linda (1978), *Womwn Workers in MNCs: the case of the electronics industry in Malaysia and Singapore*, Ann Arbour: Michigan Occasional Papers, No. IX.
- Lim, Teck-Ghee (1977), *Peasants and Their Agricultural Economy in Colonial Malaya 1874-1941*, Kuala Lumpur: Oxford University Press.
- Limqueco, P. McFarlane, B. and Odhnoff, J.(1989), *Labour and Industry in ASEAN*, Manila: Journal of Contemporary Asia Publishers.
- Lin, Vivian (1986), "Health and Welfare and the Labour Process: Reproduction and Compliance in the Electronics Industry in Southeast Asia", *Journal of Contemporary Asia*, 16:456-474.
- Lipton, M.(1977), *Why Poor People Stay Poor: Urban Bias in World Development*, London: Temple Smith.
- Low, D.A.(1973), *Lion Rampant*, London: Frank Cass.
- Luedde-Neurath, R.(1988), "State Intervention in South Korea", in White, G.(ed), *Developing States in East Asia*, London: Macmillan.
- McClelland, D.(1961), *The Achieving Society*, New York: van Nostrand.
- McGee, T.G. *et al* (1989), "Industrial Development, Ethnic Cleavages and Employment Patterns: Penang State, Malaysia", in Alejandro Portes *et al* (ed), *The Informal Studies in Advanced and Less Developed Countries*, Baltimore: John Hopkins University Press.
- McLennan, G. *et al* (1984), *State and Society in Contemporary Britain*, London: Polity Press.
- McNamara, R.(1972), "Adress to the Board of Governors", reprinted in *The McNamara Years at the World Bank: Major Policy Address of Robert S. McNamara 1968-1981*, Baltimore: John Hopkins University Press.
- Mac Pherson, S.(1982), *Social Policy in the Third World*, Brighton: Wheatsheaf Books.
- Mair, Lucy (1962), *Primitive Government*, Harmondsworth: Penguin.
- Makhlouf, Carla (1979), *Changing Veils: Women and Modernisation in North Yemen*, London: Croom Helm.



- Malaya (1956), *First Malaya Plan 1956-1960*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1961), *Second Malaya Plan 1961-1965*, Kuala Lumpur: Government Printer.
- Malaya, Department of Statistics (1958), *Household Budget Survey 1957/58*, Kuala Lumpur: Government Printer.
- Malaysia (1965), *First Malaysia Plan 1965-1970*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1971), *Second Malaysia Plan 1971-1975*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1975), *Treasury Economic Report, 1975-76*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1976), *Third Malaysia Plan 1976-1980*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1980), *Treasury Economic Report, 1980/81*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1981), *Fourth Malaysia Plan 1981-1985*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1983), *Treasury Economic Report, 1983/84*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1986), *Fifth Malaysia Plan 1986-1990*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1988), *Treasury Economic Report, 1988/89*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1989), *Mid-Term Review of the Fifth Malaysia Plan 1986-1990*, Kuala Lumpur: Government Printer.
- Malaysia, Department of Statistics (1970) *Post-Enumeration of Survey of the Housing and Population Census, 1970*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1984), *Household Income Survey 1984*, Kuala Lumpur: Government Printer.
- \_\_\_\_\_(1987), *Household Income Survey, 1987*, Kuala Lumpur: Government Printer.
- Malaysia, Federal Industrial Development Authority (1975), "Labour and Wage Rates", in *An Invitation for Investment in Malaysia*, Kuala Lumpur: FIDA.
- Malaysia, Felda (1981), *Annual Report 1981*, Kuala Lumpur: Felda.
- Malaysia, Ministry of Welfare Services (1975), *A Joint State and Federal Government Public Assistance Programme*, (mimeo).
- Malaysia, Social Security Organization (1988), *SOCSO Annual Report 1987*, Kuala Lumpur: SOCSO.
- Malloy, James M. (1979), *The Politics of Social Security in Brazil*, Pittsburgh: University of Pittsburgh Press.
- Mazumdar, Dipak (1976), "The Urban Informal Sector", *World Development*, 4:655-679.
- \_\_\_\_\_(1981), *The Urban Labour Market and Income Distribution*, New York: Oxford University Press.

- Mean, G.(1970), *Malaysian Politics*, London: London University Press.
- Meerman, J.(1979), *Public Expenditure in Malaysia - Who Benefits and Why*, New York: Oxford University Press.
- Mehmet, Ozay (1986), *Development in Malaysia, Poverty, Wealth and Trusteeship*, New Hampshire: Croom Helm.
- Midgley, James (1984), *Social Security, Inequality and the Third World*, Chichester: John Wiley.
- Mishra, R.(1987)[1977], *Society and Social Policy, Theories and Practice of Welfare*, London: Macmillan (2nd edition).
- Moser, C.O.N.(1978), "Informal Sector or Petty Commodity Production: Dualism or Dependence in Urban Development", *World Development*, 6:1041-1064.
- Naoroji, Dadabhai (1876), "Poverty in India", in *Poverty: an Un-British Rule in India*, Delhi: Ministry of Information and Broadcasting [1962 edition].
- Ness, G.D.(1967), *Bureaucracy and Rural Development in Malaysia*, Berkeley: University of California Press.
- Newman, B.A. and Thompson, R.J.(1989), "Economic Growth and Social Development: A Longitudinal Analysis of Causal Priority", *World Development*, 17(4):461-471.
- Ogus, A.J.(1982) "Great Britain", in Kohler, P.A., and Zacher, H.F. (eds)(1982), *The Evolution of Social Insurance 1881-1981: Studies of Germany, France, Great Britain, Austria and Switzerland*, London: Francis Pinter.
- Ooi, Jin-Bee (1963), *Land, People and Economy in Malaya* London: Macmillan.
- Orshansky, Mollie (1965), "Counting the poor: Another look at the poverty profile", *Security Security Bulletin*, 28:3-29.
- Oshima, H.T (1977), *Some Notes on Defining and Estimating Poverty Levels*, Manila: University of the Philippines (mimeo.).
- Paauw, D.S. and Fei, J.C.H.(1973), *The Transition in Open Dualistic Economies*, New Haven: Yale University Press.
- Parsons, Talcott (1951), *Societies*, Englewood Cliffs, N.J.: Prentice-Hall.
- Parthasarathy, G. and Rama Rao, G.D.(1974), *Employment and Unemployment of Rural Labour and the Crash Programme: A Study of West Godavari District*, Waltair: Andhra University.
- Paukert, Felix (1968), "Social Security and Income Distribution", *International Labour Review*, 98:425-450.
- \_\_\_\_\_(1988a), "Price Policies as a form of Income Policy in Developing Countries, 1. Objectives and Instruments", *International Labour Review*, 127(2):135-151.
- \_\_\_\_\_(1988b), "Price Policies as a form of Income Policy in Developing Countries, 2. Instruments and Effects", *International Labour Review*, 127(3):293-316.



- Purcell, V.(1965), *The Chinese in South East Asia*, London: Oxford University Press (second edition).
- Rasiah, R.(1988), "The Semiconductor Industry in Penang: Implications for the New International Division of Labour Theories", *Journal of Contemporary Asia*, 18(1):24-46.
- Rein, Martin (1970), "Problems in the Definition and Measurement of Poverty", in Townsend, P.(ed), *The Concept of Poverty*, London: Heinemann.
- Richards, Donald G.(1987), "An Empirical Examination of the Dependency Approach to Underdevelopment", *The Singapore Economic Review*, 32(1):1-23.
- Richards, P. and Gooneratne, W.(1980), *Basic Need, Poverty and Government Policies in Sri Lanka*, Geneva: ILO.
- Rimlinger, Gaston (1971), *Welfare Policy and Industrialization in Europe, America and Russia*, New York: John Wiley.
- Rostow, W.W.(1960), *The Stages of Economic Growth*, Cambridge: Cambridge University Press.
- Rowntree, B.S.(1901), *Poverty: A Study of Town Life*, London: Macmillan.
- Roxborough, I.(1979), *Theories of Underdevelopment*, London: Macmillan.
- Rudner, M.(1970), "The State and Peasant, the case of Malaysian Rubber", *Asian African Studies*.  
 \_\_\_\_\_ (1975), *Nationalism, Planning and Economic Modernization in Malaysia*, London: Sage Publications.  
 \_\_\_\_\_ (1981), "Development Policies and Patterns of Agrarian Dominance in the Malaysian Rubber Export Economy", *Modern Asian Studies*, 15(1):83-105.
- Rys, V.(1964), "The Sociology of Social Security", *Bulletin of the Social Security Association*, 1-2:1-34.
- Saffiotti, H.(1978), "Female Labour and Capitalism in the United States and Brazil", in Rohrich-Leavitt, R.(ed), *Women Cross-Culturally: Change and Challenge*, Hague: Mouton and Company.
- Salih; Kamal (1977), "Unbalanced Growth and Persistent Poverty", in Mokhzani, B.A.R. and Khoo Siew Mun (eds), *Poverty in Malaysia*, Kuala Lumpur: Persatuan Ekonomi Malaysia.
- Schaffer, B. and Hsien, H.W.(1973), "Distribution and the Theory of Access", *Development and Change*, 6(2).
- Seers, Dudley (1979), "The Meaning of Development", in Lehmann, D.(ed), *Development Theory, Four Critical Studies*, London: Frank Cass.
- Selowsky, M.(1980), *Food prices and the Indexing of Food Stamp Program in Sri Lanka: An Evaluation of the Trade-offs*, Washington, D.C.: World Bank.



- Selvadurai, S.(1972), *Padi farming in West Malaysia*, Kuala Lumpur: Ministry of Agriculture.
- Sen, A.(1983), "Poor Relatively Speaking", *Oxford Economic Paper*, 35:153-169.
- Shamsul, A.B.(1979a), "The Development of Underdevelopment of the Malaysian Peasantry", *Journal of Contemporary Asia*, 9(4).  
 \_\_\_\_\_ (1979b), "Theoretical orientations of the Second Malaysia Plan", in Cheong, K.C. and Khoo S.M.(eds), *Malaysia: Some Contemporary Issues in Economic Development*, Kuala Lumpur: Malaysian Economic Association.
- Shari, Ishak (1979), "Estimation of Poverty Lines and the Incidence of Poverty in Peninsula Malaysia, 1973", *The Philippine Economic Journal*, 18(4):418-449.  
 \_\_\_\_\_ and Ragayah Mat Zin (1978), "Some Aspects of Income Inequality in Peninsula Malaysia, 1957-70", in Oshima, H.T. and Mizoguchi, T.(eds), *Income Distribution by Sectors and Overtime in East and Southeast Asian Countries*, Manila: Council for Asian Manpower Studies.
- Shome, P.(1978), "Social Security as a Mobilizer of Savings: the experience of Malaysia", *International Social Security Review*, 1:58-70.
- Simey, T.S. and Simey, M.B.(1960), *Charles Booth: Social Scientist*, Oxford: Oxford University Press.
- Silcock, T.H.(1963), "Approximate Racial Division of National Income", in Silcock T.H. and Fisk, E.K.(eds) *The Political Economy of Independent Malaya*, Canberra: Australia National University.
- Singh, Ajit (1979), "The 'Basic Needs' Approach to Development versus the New International Economic Order: The Significance of Two Industrialization", *World Development* 7:585-606.
- Smelser, N.J.(1969), "Toward a Theory of Modernization", in Smelser, N.J. *Essays in Sociological Explanation*, Englewood Cliffs, N.J.: Prentice-Hall.
- Smith, Sheila (1980), "The Ideas of Samir Amin: Theory or Tautology?", *Journal of Development Studies*, 17(1):5-21.
- Snodgrass, D.R.(1975), "The Fiscal System as an Income Redistributor in West Malaysia", in Lim, D.(ed), *Readings on Malaysian Economic Development*, Kuala Lumpur: Oxford University Press.  
 \_\_\_\_\_ (1980), *Inequality and Economic Development in Malaysia*, Kuala Lumpur: Oxford University Press.
- Southall, R.(ed)(1988), *Trade Unions and the New Industrialization of the Third World*, London: Zed Books.
- Stein, S.J. and Stein, B.H.(1970), *The Colonial Heritage of Latin America*, New York: Oxford University Press.
- Stevens, M.(1987), "Family and State in Malaysian Industrialization: the case of Rembau, Negri Sembilan, Malaysia", in Afshar, H.(ed), *Women, State and Ideology*, London: Macmillan.



- Stoeckel, J. and Sirisena, N.L.(1988), "Gender Specific Socioeconomic Impacts of Development Programs in Sri Lanka", *Journal of Developing Areas*, 23:31-42.
- Stolz-Chinchilla, N.(1977), "Industrialization, monopoly capitalism, and women's work in Guatemala", *Signs*, 3(1):38-56.
- Swagman, Charles F (1988), *Development and Change in Highland Yemen*, Salt Lake City: University of Utah Press.
- Swift, M.G.(1963), "Men and Women in Malay Society", in Ward, B.E.(ed), *Women in the New Asia: the changing social roles of men and women in South and South East Asia*, Paris: UNESCO.
- Szentes, Tamas (1971), *The Political Economy of Underdevelopment*, Budapest: Akademia Kiado.
- Tarling, N (1957), "British Policy in the Malay Peninsula and Archipelago 1824-1871", *Journal of the Malayan Branch of the Royal Asiatic Society*, 30(3).
- Tham, S.C.(1979), "Issues in Malaysian Education: Past, Present and Future", *Journal of Southeast Asian Studies* , 10(2):321-50.
- Thoburn, J.T.(1977), *Primary Commodity Exports and Economic Development*, London: John Wiley and Sons.
- Todaro, M.(1989), *Economic Development in the Third World*, New York: Longman (4th edition).
- Townsend, Peter (1979), *Poverty in the United Kingdom, A survey of household resources and standards of living*, Harmondsworth: Penguin Books.
- \_\_\_\_\_ (1985), "A Sociological Approach to the Measurement of Poverty - A Rejoinder to Professor Amartya Sen", *Oxford Economic Papres* 37:659-668.
- \_\_\_\_\_ and Gordon, David (1989), "What is enough? New evidence on poverty in Greater London allowing the definition of a minimum benefit", Paper presented to the International Seminar on the Sociology of Social Security at the University of Edinburgh, July 1989.
- Tregonning, K.G.(1964), *A History of Modern Malaya*, Singapore: Eastern University Press.
- United States Department of Health and Human Services (1977), *Social Security Programmes Throughout the World*, Washington, D.C.
- Visaria, Pravin (1981), *Incidence of poverty and the characteristics of the poor in Peninsula Malaysia, 1973*, Washington D.C: World Bank Staff Working Paper No. 460, May.
- Wallerstein, Immanuel (1974), *The Modern World-System: capitalist agriculture and the origin of the European world-economy in the sixteenth century*, New York: Academic Press.
- \_\_\_\_\_ (1979), *The Capitalist World-Economy*, Cambridge: Cambridge University Press.

- Warren, B.(1980), *Imperialism, Pioneer of Capitalism*, London: New Left Books.
- Webster, A.(1984), *Introduction to the Sociology of Development*, London: Macmillan.
- Weir, Shelagh (1985), *Qat in Yemen: Consumption and Social Change*, London: British Museum Publications Limited.
- Wilson, Francis and Ramphela, Mamphela (1989), *Uprooting Poverty: the South African Challenge*, New York: W.W.Norton.
- Winstedt, Sir R.O.(1968), *A History of Malaya*, Kuala Lumpur: Merican and Sons.
- Wong, Lin-Ken (1965), *The Malaya Tin Industry to 1914, with special reference to the States of Perak, Selangor, Negri Sembilan and Pahang*, Tucson: Arizona University Press.
- World Bank (1981), *Impact Evaluation Report Malaysia: Muda and kemubu Irrigation Projects*, Washington, D.C.: World Bank.
- \_\_\_\_\_(1985), *Sustainability of Projects: First Review of Experience*, Washington D.C.: World Bank.
- \_\_\_\_\_(1988) *World Development Report 1988*, Washington D.C.: World Bank.
- \_\_\_\_\_(1989) *World Development Report 1989*, Washington D.C.: World Bank.
- Yip, Yat-Hoong (1969), *The Development of the Tin Mining Industry of Malaya*, Kuala Lumpur: University of Malaya Press.
- Young, Kevin *et al* (eds), *Malaysia: Growth and Equity in a Multiracial Society*, Baltimore: John Hopkins University Press.
- Zollner, Detlev (1982), "Germany", in Kohler, P.A., and Zacher, H.F. (eds)(1982), *The Evolution of Social Insurance 1881-1981: Studies of Germany, France, Great Britain, Austria and Switzerland*, London: Francis Pinter.

#### NEWSPAPER AND PERIODICAL

Far Eastern Economic Review, Hong Kong.

Utusan Melayu, Kuala Lumpur, Malaysia.